

## UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY

OFFICE OF TRANSPORTATION TECHNOLOGIES

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PUBLIC HEARING

**■444444444444444444444447**

In the Matter of:

ALTERNATIVE FUEL

TRANSPORTATION PROGRAM

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**5** Docket No.

5 EE-RM-96-200

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Room 1E245

Department of Energy

1000 Independence Ave., S.W.

Washington, D.C.

Wednesday,

October 9, 1996

The above-entitled matter came on for public hearing, pursuant to notice, at 9:30 a.m., Thomas Gross, presiding official.

PANEL PRESENT:

THOMAS GROSS, Presiding Official, Deputy  
Assistant Secretary for Transportation  
Technologies

DAVID RODGERS, Energy Policy Act Team  
Leader, Office of Transportation

## Technologies

KEN KATZ, Program Manager, Office of  
Transportation Technologies

PAUL McARDLE, Economist, Office of Policy  
and International Affairs

PANEL PRESENT (Continued):

VIVIAN LEWIS, ESQ., Attorney, Office of  
General Counsel

SPEAKERS PRESENT:

RICH KOLODZIEJ, President, Natural Gas  
Vehicle Coalition

ROYCE LAFFITTE, Propane Consumers  
Coalition (Eastman Chemical Co.)

JAMES RALLO, American Automotive Leasing  
Association and PHH, Inc.

MARY TAVENNER, American Automotive  
Leasing Association and PHH, Inc.

CHUCK CLINTON, Chair, Metropolitan  
Washington Alternative Fuels Partnership

ROBERT ECKELS, Board Member, National  
Council of Elected County Executives,  
Harris County, Texas

TIMOTHY DAVIS, National Council of  
Elected County Executives, Summit City,  
Ohio

JOHN LYNN, Vice President of Government  
Affairs, American Methanol Institute

BILL WEST, Electric Transportation  
Coalition (Southern California Edison)

RICK TEMPCHIN, Director, Electric  
Transportation, Edison Electric Institute

PHILLIP LAMPERT, Project Coordinator,  
National Ethanol Vehicle Coalition

STEVEN MELLO, Vice President, Twin Rivers  
Technologies, Inc.

JOHN HUBER, Government Affairs Counsel,  
Petroleum Marketers Association

## SPEAKERS PRESENT (Continued):

JAMES ANSELM, President, National  
Association of Fleet Administrators

DIANE SHEA, Associate Legislative  
Director, Environment, Energy, and Land  
Use, National Association of Counties

CHARLES STOKES, Citizen, Naples, Florida

DAVID KEEFE, City of Rochester and  
Genesee Region Clean Communities

DAVID BYERMAN, Executive Director,  
Greater Philadelphia Clean Cities Program

JAMES PEEPLES, Regulatory Counsel, Fats  
and Proteins Research Foundation, Inc.

LEN BOWER, Director, Policy Analysis and  
Strategic Planning, American Petroleum  
Institute

PAUL KERKHOVEN, Manager Environmental  
Affairs, American Highway Users Alliance

FREDERICK HILLER, Chief, Equipment  
Division, Arlington County, Virginia

DOUGLAS HOWELL, ESQ., Transportation  
Attorney, The Environmental and Energy  
Study Institute

STEVEN CAIN, President, PAF Fueling  
Systems

DOUGLAS PICKERING, Vice President, AG  
Environmental Products, LLC

KARL REHBERG, President, NOPEC Corp.

JEFFREY HORVATH, Chief Executive Officer,  
National Biodiesel Board

MARTHA WISE, Manager, Federal Government  
Affairs, Service Station Dealers of  
America

SPEAKERS PRESENT (Continued):

RUSS TEAL, President, Florida Keys Marine  
Sanctuary, Inc.

KAREN MILLER, Vice President for Market  
Technology, NOPEC Corp.

MICHAEL LEISTER, Fuels Technology  
Coordinator, Marathon Oil Company

DAVID HOLT, Clean Fuels Development  
Coalition

JILL HAMILTON, Clean Fuels Development  
Coalition

C-O-N-T-E-N-T-S		
PRESENTATION		PAGE
Rich Kolodziej, National Gas Vehicle Coalition		13
Royce Laffitte, Propane Consumers Coalition		23
James Rallo, American Automotive Leasing Association and PHH, Inc.		33
Mary Tavenner, American Automotive Leasing Association and PHH, Inc.		45
Chuck Clinton, Metropolitan Washington Alternative Fuels Partnership		52
Robert Eckels, National Council of Elected County Executives		65
Timothy Davis, National Council of Elected County Executives		78
John Lynn, American Methanol Institute		92
Bill West, Electric Transportation Coalition		99
Rick Tempchin, Edison Electric Institute		108
Phillip Lampert, National Ethanol Vehicle Coalition		121
Steven Mello, Twin Rivers Technologies, Inc.		129
John Huber, Petroleum Marketers Association		138
James Anselmi, National Association of Fleet Administrators		145
Diane Shea, National Association of Counties		161
Charles Stokes, Naples, Florida		173
David Keefe, City of Rochester and Genesee Region Clean Communities		184
David Byerman, Greater Philadelphia Clean Cities Program		199

## C-O-N-T-E-N-T-S

PRESENTATION	PAGE
James Peeples, Fats and Proteins Research Foundation, Inc.	213
Len Bower, American Petroleum Institute	229
Paul Kerkhoven, American Highway Users Alliance	246
Frederick Hiller, Equipment Division, Arlington County, Virginia	256
Douglas Howell, Environmental and Energy Study Institute	266
Steven Cain, PAF Fueling Systems	283
Douglas Pickering, Ag Environmental Products, LLC	297
Karl Rehberg, NOPEC, Corp.	310
Jeffrey Horvath, National Biodiesel Board	322
Marsha Wise, Service Station Dealers of America	336
Russ Teal, Florida Keys Marine Sanctuary, Inc.	342
Karen Miller, NOPEC Corp.	348
Michael Leister, Marathon Oil Company	355
David Holt, Clean Fuels Development Coalition	359

1 P-R-O-C-E-E-D-I-N-G-S

2 (9:32 a.m.)

3 MR. GROSS: Okay. We'll get started with  
4 our hearing. Good morning and welcome.

5 I'm Tom Gross, Deputy Assistant Secretary  
6 for Transportation Technologies in the Office of  
7 Energy Efficiency and Renewable Energy.

8 On behalf of the Department of Energy, I'd  
9 like to thank you for taking the time to participate  
10 in this public hearing concerning the Department's  
11 Alternative Transportation Fuels Program. I know some  
12 of you have traveled a good distance to be here.

13 The purpose of this hearing is to receive  
14 oral testimony from the public on DOE's advanced  
15 notice of proposed rulemaking, or ANOPR. Your  
16 comments are not only appreciated; they are essential  
17 to our process.

18 This ANOPR, which concerns alternative  
19 fuel vehicle acquisition requirements for private and  
20 local government fleets and which is required by the  
21 Energy Policy Act of 1992, begins a process to  
22 determine whether alternative fuel vehicle acquisition  
23 requirements for certain private and local government  
24 automobile fleets should be promulgated.

25 This advanced notice also requests

1     comments from the public on progress toward the goals  
2     set forth in Section 502(b)(2) of the Act on the  
3     problems with achieving the goals and on assessing the  
4     adequacy and practicability of all actions necessary  
5     to meet the goals.

6             The ANOPR is intended to stimulate  
7     comments that will inform DOE decisions concerning  
8     future rulemaking actions and nonregulatory  
9     initiatives to promote alternative fuels and  
10    alternative fuel vehicles; actions and initiatives  
11    which would be needed to achieve the petroleum  
12    displacement goals established in the legislation.

13            If you have not already read the Federal  
14    Register notice from August 7th, 1996, I urge you to  
15    do so. Copies are available here at the registration  
16    desk in the room.

17            The comments received here today and those  
18    submitted during the written comment period will  
19    assist the Department in the rulemaking process. The  
20    written comment period ends November 5th, 1996.

21            All written comments must be received by  
22    that date to insure consideration by DOE. The address  
23    for sending in comments is provided in the Federal  
24    Register notice.

25            As the presiding official for this



1     hearing, I'd like to set forth the guidelines for  
2     conducting the hearing and provide other pertinent  
3     information. In approximately one week, a transcript  
4     of this hearing will be available for inspection and  
5     copying at the Department of Energy's Freedom of  
6     Information Reading Room. The address is specified in  
7     the Federal Register notice.

8                 In addition, those wishing to purchase a  
9     copy of the transcript may make their own arrangements  
10    with the transcribing reporter.

11                This will not be an evidentiary or  
12    judicial type of hearing. It will be conducted in  
13    accordance with Section 553 of the Administrative  
14    Procedures Act, 5 United States Code, Section 553, and  
15    Section 501 of the DOE Organization Act, 42 U.S. Code,  
16    Section 7191.

17                To provide the Department with as much  
18    pertinent information and as many views as can  
19    reasonably be obtained and to enable interested  
20    persons to express their views, the hearing will be  
21    conducted in accordance with the following procedures.

22                Speakers will be called to testify in the  
23    order indicated on the agenda. Speakers have been  
24    allotted ten minutes for their oral statements. As we  
25    have a full day of speakers -- in fact, I just took a

1 look at the schedule, and the schedule for the  
2 schedules speakers goes until 6:00 p.m. today, and  
3 after which we will have unscheduled speakers. So it  
4 will be a full day and perhaps a full evening.  
5 Therefore, we request please keep to the ten-minute  
6 request.

7                   Anyone may make an unscheduled oral  
8 statement after all scheduled speakers have delivered  
9 their statements. Persons interested in making such  
10 an unscheduled statement should submit their names to  
11 the registration desk before the conclusion of the  
12 last scheduled speaker.

13                   And at the conclusion of all  
14 presentations, scheduled and unscheduled, speakers  
15 will be given the opportunity to make a rebuttal or  
16 clarifying statement, subject to time limitations, and  
17 will be called in the order in which the initial  
18 statements were made.

19                   Persons interested in making such a  
20 statement should submit their names to the  
21 registration before the conclusion of the last  
22 speaker.

23                   Questions will be asked only by members of  
24 the panel conducting the hearing.

25                   As mentioned earlier, the close of the

1 comment period is November 5th, 1996. All written  
2 comments received will be available for public  
3 inspection at the Department of Energy Freedom of  
4 Information Reading Room in Washington. The phone  
5 number there is (202) 586-6020.

6 The address for submitting written  
7 comments is provided in the Federal Register notice.  
8 Eight copies of the comments are requested. If you  
9 have any questions concerning the submission of  
10 written comments, please see Ms. Andi Kasarsky at the  
11 registration desk.

12 Any person submitting information which he  
13 or she believes to be confidential and exempt by law  
14 from public disclosure should submit to the address  
15 mentioned above one complete copy and seven copies  
16 from which the information claimed to be confidential  
17 has been deleted.

18 In accordance with the procedures  
19 established at 10 Code of Federal Regulations, Section  
20 1004.11, the Department of Energy shall make its own  
21 determination as to whether or not the information  
22 shall be exempted from public disclosure.

23 In keeping with the regulations of this  
24 facility, there will be no smoking in this room.

25 We appreciate the time and effort you've

1 taken in preparing your statements and are pleased to  
2 receive your comments and opinions.

3 I would now like to introduce the members  
4 of the panel. Joining me this morning are David  
5 Rodgers, the Energy Policy Act Team Leader within the  
6 Office of Transportation Technologies; Mr. Ken Katz,  
7 the Program Manager, also within the Office of  
8 Transportation Technologies; Mr. Paul McArdle, an  
9 economist in DOE's Office of Policy and International  
10 Affairs; and Vivian Lewis, an attorney with DOE's  
11 Office of General Counsel.

12 The introduction has been kind of lengthy,  
13 but we hope useful, and now it's time to move on to  
14 what I consider to be the more informative, important  
15 business, the exciting part, fun part of these kinds  
16 of hearings, that of receiving your comments on the  
17 advanced notice of proposed rulemaking.

18 So I'd like to call our first speaker on  
19 the agenda. For the record, I ask that each speaker  
20 please state your name and whom you represent before  
21 making your statement.

22 Thank you.

23 Our first speaker is Mr. Rich Kolodziej of  
24 the Natural Gas Vehicle Coalition.

25 MR. KOLODZIEJ: Good morning.

1 MR. GROSS: Good morning.

2 MR. KOLODZIEJ: My name is Richard  
3 Kolodziej, and I'm President of the Natural Gas  
4 Vehicle Coalition.

5 The Coalition is a national organization  
6 representing over 200 companies with an interest in  
7 the growth and development of a sustainable market for  
8 natural gas vehicles.

9 The purpose for my testimony today is to  
10 express the Coalition's strong, continuing support for  
11 the energy diversity goals embodied in the Energy  
12 Policy Act of 1992.

13 I also wanted to share our views on the  
14 critical issues and actions that DOE and this  
15 administration should take now to insure our nation's  
16 energy security and to protect our economic vitality.

17 When Congress passed the alternative fuel  
18 provisions of the Energy Policy Act, it was in  
19 recognition of the fact that it was bad public policy  
20 for us to be increasingly dependent on foreign oil.  
21 It was bad economic policy; it was bad foreign policy;  
22 and it was bad military policy, and they set  
23 aggressive goals: ten percent displacement of motor  
24 fuels by 2000, 30 percent by 2010.

25 At that time, 44 percent of the oil we

1     used in this country was imported. Today, four years  
2     later, we're importing over 50 percent of the oil we  
3     use, and that number continues to increase.

4                 Those oil displacement goals were good  
5     public policy in 1992 and are even more valid today.

6     Can we meet those goals? Sure, we can, but it's not  
7     going to happen by itself. If we are to wean  
8     ourselves from our addiction to foreign oil, if we are  
9     to create a transportation infrastructure in this  
10    country that is not totally dependent on gasoline and  
11    diesel fuel, the Department of Energy, working with a  
12    number of other federal agencies, will have to act  
13    boldly.

14                It is not sufficient to simply say, "We'll  
15    give it our best shot, if it's not too inconvenient."

16    Change is always inconvenient to someone. We need to  
17    seek decisive leadership from this administration that  
18    will not falter in the face of opposition by advocates  
19    of the status quo.

20                If this administration is serious about  
21    meeting the oil displacement goals, there is plenty  
22    that it can do. First, it should recognize that  
23    mandates to purchase and use alternative fuel vehicles  
24    would be unnecessary if fleet owners voluntarily  
25    switched to alternative fuel vehicles.

1                   Unfortunately, despite the environmental,  
2   public health, energy dependence, and balance of trade  
3   benefits that most alternative fuel vehicles offer,  
4   fleet owners won't voluntarily make that switch until  
5   there are adequate economic incentives in place to do  
6   so.

7                   This administration should strongly  
8   support the provision of tax credits to help provide  
9   those economic incentives for light duty, medium duty,  
10   and heavy duty fleets. Specifically, credits should  
11   be provided to offset the incremental cost of some  
12   AVFs for the construction of new AVF fueling stations  
13   and on each gallon equivalent of alternative fuel  
14   used.

15                  In addition, businesses should be offered  
16   accelerated depreciation on AVFs and related fueling  
17   stations.

18                  The executive branch should lead by  
19   example and enthusiastically embrace the purchase and  
20   use of AVFs in its own fleet, especially in its high  
21   fuel use vehicles. To that end, the executive order  
22   reinforcing the previous executive order requiring  
23   federal agencies to exceed the EPA's federal fleet AVF  
24   phase-in schedule should be issued immediately and  
25   then enforced.

1                   Where the federal government provides  
2 funds to state or local governments related to  
3 transportation, additional funds should be offered to  
4 encourage the switch to AVFs. For example, Federal  
5 Transit Administration provides public transit  
6 agencies up to 80 percent of the cost of new transit  
7 buses, regardless of which fuel is used. This could  
8 be increased to 90 percent for alternative fuel buses,  
9 signaling a public preference for cleaner domestic  
10 fuels.

11                   Continuing research is also critical to  
12 further drive down the first cost of AVFs, and DOE  
13 needs to insure that there is a comprehensive, public-  
14 private, national RD&D plan for each alternative fuel  
15 and then make sure the research is, in fact, funded  
16 and carried out.

17                   Near the end of the recently adjourned  
18 Congress, Representative Joe Barton of Texas and a  
19 number of co-sponsors introduced the Natural Gas  
20 Vehicle Incentives Act. All the incentives I've  
21 mentioned, and more, are included in that bill for  
22 natural gas vehicles, and with these incentives in  
23 place, mandates would be a nonissue. That bill with  
24 bipartisan support will be reintroduced early in the  
25 next Congress.



1           The administration in place next year  
2   could and should come out strongly in support of these  
3   incentives and similar incentives for other  
4   alternative transportation fuels, and DOE should take  
5   the lead in coordinating that support with EPA, DOD,  
6   Treasury, and other affected agencies.

7           DOE should also work with EPA to harmonize  
8   energy and environmental regulations. To the average  
9   fleet customer these regulations often appear  
10   confusing and contradictory and frequently act as  
11   obstacles to moving forward.

12           DOE should also step back and evaluate the  
13   EPAct oil displacement goals themselves. The spirit  
14   of those goals was to insure that when the next major  
15   oil disruption occurs an adequate AVF infrastructure  
16   would be in place to cushion the economic and other  
17   impacts and to provide a base for a rapid shift to  
18   AVFs.

19           DOE should analyze what actually would be  
20   needed to achieve the spirit of those goals. How many  
21   vehicles? How many fueling stations? How much  
22   additional fuel distribution infrastructure? Until we  
23   have a better understanding of these issues, the 30  
24   percent displacement goal will continue to appear  
25   arbitrary.

1                   Now, when all of these initiatives are  
2   laid on the table, you will inevitably hear two  
3   arguments against pursuing them. The first is that  
4   the government should not meddle in the marketplace,  
5   but rather, insure a level playing field for all  
6   fuels, gasoline and diesel included, and then let the  
7   market decide.

8                   The other is that we just cannot afford  
9   it.

10                  The short answer to the first is that we  
11   don't have a level playing field now. Some of the  
12   real costs of using petroleum based fuels, the  
13   environmental costs, the health costs, the energy  
14   dependence costs, these costs are not fully reflected  
15   in the price of gasoline and diesel fuel, and in  
16   effect, some of these costs are hidden by being  
17   imposed on society as a whole and paid for, for  
18   example, through higher income taxes and higher health  
19   costs.

20                  The Congressional Research Services  
21   estimates the externalities associated with continuing  
22   to use oil in the transportation sector are between  
23   ten and \$20 billion per year.

24                  On the other hand, owners of NGVs are  
25   generating public benefits in those same areas, and

1     they are not being rewarded for it. In other words,  
2     the marketplace is flawed, and the government has a  
3     justifiable role in correcting it, and incentives for  
4     alternative fuel vehicles are more acceptable than  
5     imposing higher taxes on gasoline and diesel fuel.

6             The answer to the second concern, the "we  
7     just can't afford it" argument, is that previous oil  
8     disruptions cost the U.S. economy several trillion  
9     dollars as a result of increased inflation and lost  
10    GNP. The Congressional Research Service estimated  
11    that the U.S. economy declined by six percent during  
12    the '73-'75 period as a result of the oil embargo, and  
13    that U.S. unemployment doubled.

14            The next time these numbers will be far,  
15    far greater. It's not that we can't afford to put  
16    these incentives and actions into place. As a nation  
17    we cannot afford not to put them in place.

18            Again, let me reiterate that we can  
19    achieve the oil displacement goals established in  
20    EPAct, and this would have a significant direct set of  
21    benefits for the United States, but it would also have  
22    significant benefits throughout the developed and  
23    developing world. The world economies are all  
24    interdependent. When the next major oil disruption  
25    comes, and it will come, we can soften its direct

1     impact on our economy by diversifying our  
2     transportation fuel mix.

3                 But if other world economies are  
4     devastated, that will shape our economy, too. A  
5     number of other countries are now aggressively moving  
6     toward increased use of natural gas vehicles: Canada,  
7     Mexico, Venezuela, Argentina, the Philippines,  
8     Malaysia, Indonesia, Japan, most of Western Europe,  
9     Egypt, Russia, even Uzbekistan.

10                Today the United States is perceived to be  
11     a world leader in alternative fuel vehicles. Our  
12     technology is among the best and most sophisticated in  
13     the world, and our NGVs, in fact, all of our  
14     alternative fuel vehicles, are the world's cleanest  
15     and most energy efficient. If we're successful in  
16     developing alternative fuel vehicle industries here,  
17     we will become a model for other countries and a  
18     source for technically advanced alternative fuel  
19     equipment.

20                And if we do that, not only will we have  
21     created a growing export market for our technologies  
22     and products, but we would also help reduce other  
23     countries' foreign oil dependency which will further  
24     reduce the impact from that inevitable oil disruption  
25     on us.

1                   We can do this. We can do all of this if  
2   this administration acts boldly and decisively and  
3   provides the leadership that we all expect and that we  
4   all deserve.

5                   Thank you for this opportunity to appear  
6   before you today.

7                   MR. GROSS: Question from the panel?

8                   MR. KATZ: I have one.

9                   MR. GROSS: All right.

10                  MR. KATZ: On the Natural Gas Vehicle  
11   Incentives Act, are there any statements regarding  
12   current and future mandates?

13                  MR. KOLODZIEJ: In that Act, there are  
14   statements that if all the other incentives are put  
15   into place, there would be a sunset of the mandates on  
16   the state fleets, a sunset on the mandates on the fuel  
17   providers, and there would not be the mandates imposed  
18   on the private and municipal fleets, if all the other  
19   incentives are put in place.

20                  MR. KATZ: Thank you.

21                  MR. GROSS: I'd just like to clarify based  
22   on your statement that you would agree with that  
23   conclusion that if all of those incentives are put  
24   into place, that the mandates, part of the Energy  
25   Policy Act which is part of the subject of this

1     hearing, would -- it would be appropriate to sunset  
2     those and do away with the mandated approach.

3                 MR. KOLODZIEJ: I think we all should  
4     agree that we have to achieve those oil displacement  
5     goals. The best way to achieve that is through  
6     incentives, and if we provide those incentives, we  
7     will not need to implement the mandates.

8                 MR. GROSS: Okay. Does the gas industry  
9     have some analyses, studies which indicate the  
10    magnitude of the investment that would be necessary  
11    for the infrastructure to support the natural gas  
12    associated displacement that would be consistent with  
13    reaching the ten and 30 percent goals?

14                MR. KOLODZIEJ: We have some preliminary  
15    analyses. I don't think they're adequate. I think  
16    also we need to look at not just what the natural gas  
17    industry would do on its own to get to the ten to 30  
18    percent goals, but what all the alternative fuels  
19    collectively would have to achieve, and I think that's  
20    where DOE needs to provide the leadership and the  
21    analysis.

22                What kind of mix will we have to have in  
23    place to achieve those goals? What's reasonable to  
24    assume?

25                MR. GROSS: Thank you very much.

1                   Our next speaker is Mr. Royce Laffitte.

2                   MR. LAFFITTE: Good morning. My name is  
3 Royce Laffitte, and I'm Director of the Customer  
4 Service and Materials Management Division of Eastman  
5 Chemical Company in Longview, Texas.

6                   I'd like to thank you for the opportunity  
7 to speak today on behalf of the Propane Consumers  
8 Coalition. Propane Consumers Coalition represents  
9 residential, agricultural, and industrial propane  
10 users who account for almost 85 percent of U.S.  
11 demand.

12                  More than eight million homes, mainly  
13 rural and often housing low income families, use  
14 propane for heating, cooking, and hot water. American  
15 farmers rely on propane for crop drying, some engine  
16 fuel use, and heating farm buildings. Propane is also  
17 an essential feedstock for the manufacture of  
18 chemicals and plastics that create millions of jobs  
19 and generate billions of dollars in U.S. exports.

20                  The Coalition supports the twin goals of  
21 the alternative fuels provisions of EPCRA, decreasing  
22 the nation's reliance on imported petroleum and  
23 improving urban air quality by reducing emissions from  
24 combustion of motor fuels.

25                  However, we are adamantly opposed to

1 including propane as an eligible alternative fuel in  
2 Title III of the Act. It will do little to achieve  
3 the goals of the Act because of its limited domestic  
4 supply, but may well cause significant economic damage  
5 to Americans who rely on affordable, available  
6 supplies of propane to heat homes, run farms, and  
7 provide a valuable raw material for producing plastics  
8 and chemicals.

9           It's for this reason that the Propane  
10 Consumer Coalition strongly urges that the DOE  
11 complete a cost-benefit analysis of the effect of  
12 EPA's alternative fuels mandates on existing propane  
13 consumers as called for in Section 507 of EPCA. We  
14 believe that when that is done, the Secretary of  
15 Energy will come to the same conclusion we have.

16 Propane should be stricken from the definition of an  
17 alternative motor fuel in Title III of the Act.

18           I'd like to briefly outline for you the  
19 facts about propane supply, demand, and price that are  
20 the basis for our concerns about the eligibility of  
21 propane as an alternative fuel under EPCA.

22           U.S. reserves of propane are small, less  
23 than three percent of total U.S. hydrocarbon reserves,  
24 severely limiting the contribution propane can make as  
25 an alternative motor fuel. Approximately two-thirds



1 of the propane consumed in the U.S. is either imported  
2 or it depends on petroleum production or refining.

3           While the production of propane based on  
4 natural gas processing has been essentially flat over  
5 the past ten years, petroleum refinery based  
  
6 production of propane has risen 60 percent. Greater  
7 use of propane as a motor fuel will not lead to  
8 greater security from oil dependance. With domestic  
  
9 production failing to keep pace with increased demand,  
10 imported propane is expected to be the primary future  
11 source of new U.S. supplies.

12           Since 1989, propane imports have risen by  
  
13 175 percent. The source of new propane imports will  
14 shift from Canada to the Middle East, a growing cause  
15 for concern.

16           During the past winter, propane  
17 inventories hit historic lows as production was unable  
18 to keep up with demand. Low propane inventories are  
19 a concern because of the high level of price  
  
20 volatility they cause in the market.

21           In August of this year, propane  
22 inventories were at a 25-year low. Chronic low  
  
23 inventories are a dangerous signal that cannot be  
24 ignored. If another bad winter strikes, price spikes  
25 and supply disruptions to all users can be expected.

1                   Limited domestic production and growing  
2 demand have resulted in wholesale price increases for  
3 propane well beyond price rises for other  
4 hydrocarbons. The trend line increase in wholesale  
5 propane prices between 1987 and 1995 was 55 percent.

6 No other hydrocarbon came near that figure.

7                   Tight supplies, rising imports, and high  
8 prices are symptomatic of a propane market already  
9 stretched to its limit. What will happen if EPCA  
10 mandates drive up demand beyond free market levels?

11                  The Department of Energy completed a study  
12 earlier this year that found if federal mandates are  
13 successful in achieving the goals of EPCA, propane  
14 demand as an alternative motor fuel will increase 50-  
15 fold between 1995 and 2010, to a level higher than the  
16 total demand is today. Propane imports will supply 70  
17 percent of this increased demand.

18                  This level of demand would drive up prices  
19 to all consumers, residential, agricultural, and  
20 petrochemical. Speaking from my own perspective, this  
21 would be disastrous for the U.S. petrochemical  
22 industry.

23                  Feedstock costs represent over 60 percent  
24 of the cost of ethylene produced in a typical plant in  
25 Texas. Propane will become too expensive to use in

1 ethylene production. Plants that cannot switch  
2 feedstocks would close. Those that can will face  
3 higher feedstock costs. The net effect will be to  
4 export jobs from the U.S. petrochemical industry to  
5 areas of lower feedstock costs, primarily the Middle  
6 East.

7 Government policies that interfere with  
8 energy markets threaten the availability of cost of  
9 propane to homeowners, farmers, and the chemical  
10 industry. This also has serious implications for the  
11 U.S. economy.

12 In 1995, the chemical industry was  
13 responsible for \$60 billion in exports and \$367  
14 billion in total production, the number one U.S.  
15 exporter in 1995. It is for these reasons that the  
16 PCC opposed any policy that employs mandates or  
17 incentives to artificially stimulate demand for  
18 propane beyond free market levels.

19 We feel strongly that markets, not  
20 government mandates, should determine supply, demand,  
21 and price for hydrocarbon fuels and feedstocks.  
22 Failed federal energy policies of the 1970s have  
23 taught us the futility of trying to determine the  
24 direction of energy markets through mandates.

25 The Department of Energy has yet to

1     conduct a cost-benefit analysis as called for in  
2     Section 507 of EPO Act to document exactly what the  
3     previously referenced level of demand will cost U.S.  
4     propane consumers.

5             However, just in the past year, the  
6     effects of short supplies and tight inventories have  
7     been reflected in significantly higher prices in the  
8     industry. Today Gulf Coast prices are about 50 cents  
9     a gallon, compared to about 32 cents a gallon a year  
10    ago, up about 60 percent from a year ago.

11            The effects of price increases resulting  
12    from the level of demand expected if EPO Act mandates  
13    are implemented will be disastrous for the U.S.  
14    propane consumers. Even if the 30 percent federal  
15    target is not achieved, the market is so tight that a  
16    lesser increase in demand will have serious price  
17    consequences.

18            In closing, the Propane Consumer Coalition  
19    would like to repeat our call for a full cost-benefit  
20    analysis on the effect of EPO Act alternative fuels  
21    mandates on existing propane consumers. We are  
22    confident that the results of that analysis will lead  
23    to but one conclusion. Propane should be removed from  
24    the definition of an alternative motor fuel in Title  
25    III of the Energy Policy Act.

1           Thank you for the opportunity to share our  
2   thoughts. I'll be glad to answer any of your  
3   questions.

4 MR. GROSS: Questions?

5 MR. McARDLE: Yes.

6 MR. GROSS: Paul.

7 MR. McARDLE: I have one question  
8 regarding the ability of the chemical industry to  
9 switch feedstocks. You mentioned that in certain  
10 chemical plants --

11 MR. LAFFITTE: Yes.

12 MR. McARDLE: -- there's limited feedstock  
13 switching capability. I'm trying to get a feel for  
14 how prevalent is the ability to switch feedstocks in  
15 the chemical industry and what feedstocks are  
16 generally used in place of propane.

17 MR. LAFFITTE: Ethane is used as a  
18 feedstock for ethylene, and about half of the ethylene  
19 is produced from ethane. The other feedstocks are  
20 butane, normal butane, natural gasoline naphtha, gas  
21 oils, and propane.

22 MR. McARDLE: And do you have a feel for  
23 what percent of the industry has the capability to  
24 switch feedstocks or you're not sure about that?

25 MR. LAFFITTE: Right now, with these high

1     prices, there's still -- these are numbers off the top  
2     of my head -- somewhere around, I think, 300,000  
3     barrels a day of propane used, and with these high  
4     prices, that's probably, I guess, as low as they can  
5     get practically.

6                     MR. McARDLE:   Okay.

7                     MR. RODGERS:   I very much appreciate your  
8     comments about the modeling that we've been doing here  
9     at the Department.  We are doing a lot more modeling,  
10    but one question I have is in the studies that we have  
11    done that indicate propane could capture a significant  
12    share of the market in a 2010 time frame, actually  
13    very little of that market is attributable to the  
14    fleet programs that are mandated under the EPAct, and  
15    our modeling shows that consumers, if offered a  
16    propane vehicle at a reasonable cost, would choose to  
17    use propane as a motor vehicle fuel.

18                    So I guess I'm not sure I understand what  
19    you're asking us to do.  If consumers want propane and  
20    they're willing to buy propane as a vehicle, then who  
21    is the Department to do a cost-benefit analysis that  
22    says they're making a wrong choice?

23                    MR. LAFFITTE:   In the notice for the  
24    hearing, it included some comments that said that the  
25    Department in the study needs to consider all of the

1 propane consumers and the adverse effects that  
2 significantly increased demand for propane for  
3 alternative fuels would have on them. It's talking  
4 about all alternative fuels, of which propane is one.

5 So that's the area that I'm saying that  
6 should be looked at and consider all of it, all of the  
7 propane consumers.

8 MR. RODGERS: Okay, and we will do that,  
9 and I appreciate that, but I just want to make sure I  
10 understand. If motor vehicle consumers of propane  
11 demand more propane and that competes in the  
12 marketplace and the price of propane rises, do you  
13 want the Department of Energy to interfere with that?

14 MR. LAFFITTE: No. In other words, I do  
15 not want the Department of Energy to try to affect the  
16 propane price. I want the Department of Energy to  
17 consider the effects of the policies that are being  
18 set on propane consumers and the prices and the lack  
19 of flexibility that some of those folks have.

20 MR. RODGERS: Okay.

21 MS. LEWIS: I'd like to ask you a  
22 question. How long has the Coalition been in  
23 existence?

24 MR. LAFFITTE: Two or three years.

25 MS. LEWIS: Three or less? Because we

1     have a definition of alternative fuels set by  
2     Congress, and as you know, we cannot change that  
3     definition unless we get some guidance from Congress,  
4     and I was wondering if you had presented your ideas,  
5     your concept, or what you've just presented to us to  
6     Congress or to some of the people on the Hill in  
7     regards to your concerns about propane.

8                 I think we have very little control right  
9     now, the way I see it, as to take propane out of that  
10    definition. That's the way I feel about it right now.

11                MR. LAFFITTE: Well, I appreciate that.  
12    The way we would see the opportunity is that it was in  
13    there, and looking back, it would have been better had  
14    this been presented before EPAct effectively and it  
15    not been included because they are facts.

16                Where we go from here is that the study  
17    that we're talking about making sure is done here and  
18    the recommendation, which we think will be the same  
19    recommendation; that recommendation can be made to the  
20    Secretary of Energy, and I'm sure that Congress -- we  
21    could go back and do whatever is needed there, working  
22    with the Congress to effect a change.

23                MS. LEWIS: Thank you.

24                MR. LAFFITTE: That's the way I would see  
25    it.



1 MR. GROSS: Thank you, Mr. Laffitte.

2 MR. LAFFITTE: Thank you.

3 MR. GROSS: Our next speaker is actually  
4 a tandem, it looks like, Mr. James Rallo and Mary  
5 Tavenner.

6 MS. TAVENNER: Tavenner.

7 MR. GROSS: Tavenner. Excuse me.  
8 Representing the American Automotive Leasing

9 Association and PHH.

10 MR. RALLO: My name is Jim Rallo, and I am  
11 Vice President of PHH Vehicle Management Services,  
12 which is headquartered in Hunt Valley, Maryland.

13 PHH is one of the largest fleet management  
14 companies in the world. We lease and manage sales and  
15 service vehicles used by large corporations, as well  
16 as small businesses. Additionally, we provide a wide  
17 array of management services that include vehicle  
18 acquisition, maintenance, fuel purchasing, data  
19 reporting, safety programs, and most importantly,  
20 resale of used fleet vehicles.

21 The service we provide enables the fleets  
22 to operate in a cost efficient manner with better  
23 maintained vehicles than those driven by the general  
24 public.

25 The core concern of our company and our

1 industry is meeting the operational and cost  
2 requirements of our clients' fleets. We have no  
3 preconceived bias or prejudice for or against any fuel  
4 or vehicle, and we have no ownership stake in any  
5 particular fuel or vehicle technology.

6 We start from a position of fuel  
7 neutrality. It is a core concern because the fleet  
8 management and leasing industry is driven by those  
9 costs and operational efficiencies. Without these  
10 efficiencies, businesses will likely disband their  
11 fleets in favor of driver reimbursements.

12 PHH understands and agrees with the public  
13 interest virtues of energy independence and reduced  
14 air pollution. We also understand the roles that  
15 alternate fuels can play in achieving those energy and  
16 environmental objectives.

17 The problem lies in the approach proposed  
18 to meet those goals. Simply stated, the cost and  
19 operational requirements of private sector fleets  
20 cannot be satisfied by a fleet acquisition mandate for  
21 alternate fuel vehicles. Allow me to share with you  
22 from a practical standpoint why.

23 We see natural gas as one of the most  
24 promising of the various alternate fuels allowed under  
25 EPAAct. The prospects of lower fuel costs, longer

1 engine life, and greater emission reductions of CNG  
2 vehicles make them attractive.

3           However, the applications in which they  
4 make sense are very limited, and for that reason alone  
5 make mandated acquisitions inappropriate.

6           Our clients order thousands of vehicles  
7 each year for delivery at numerous locations  
8 throughout the country. Many of these vehicles must  
9 be acquired on a short time frame to meet fleet  
10 demand. Their uses vary significantly. For example,  
11 a fleet of passenger cars which will be used by sales  
12 personnel would need adequate trunk space to store  
13 sales literature and samples. In fact, federal law  
14 even requires that fleet vehicles of the health care  
15 or pharmaceutical industry carry their supplies in  
16 concealed compartments, primarily a trunk.

17           Numerous fleets in metropolitan areas use  
18 subcompact vehicles for fuel efficiency and parking.  
19 For the most part today's fleet vehicles cannot  
20 accommodate the large CNG fuel tanks required.

21           Even if the configurations were available,  
22 the financial barrier exists. On the whole, alternate  
23 fuel vehicles are not available at a cost effective  
24 price. The additional cost can be several thousand  
25 dollars.

1                   Operation of a fleet on alternate fuel  
2           presents other problems. At this point there is a  
3           lack of refueling stations to service the demands of  
4           most fleets. According to a poll fleet managers  
5           conducted by Runzheimer International, this is a major  
6           deterrent to purchasing alternate fuel vehicles.

7                   The case example of this can be found in  
8           the New England area, which represents a very  
9           geographically compact region. The American Gas  
10          Association reported that the six-state region now  
11          only has 23 CNG refueling sites available. Generally  
12          only a few of these are open to the public, and then  
13          only during limited hours. Some sites may require  
14          even advanced appointments. In stark contrast, there  
15          are 6,231 service stations operated in the same area.

16                   Another deterrent is the lack of certified  
17          repair facilities, which is absolutely critical to  
18          efficient fleet operation. Lost time due to  
19          breakdowns or even scheduled or nonscheduled  
20          maintenance can cost the company upwards of \$200 per  
21          hour.

22                   This does not include the opportunity cost  
23          of lost business and related revenues which can even  
24          be greater.

25                   Even if an appropriate alternate fuel

1     vehicle can be found, acquired, and its fueling and  
2     servicing needs accommodated, a huge barrier exists at  
3     the back end of a lease. One of PHH's most important  
4     functions for its clients is to sell fleet vehicles  
5     when they come out of service. The vehicles are  
6     typically sold directly to fleet drivers or to the  
7     general public through auto auctions, wholesalers, new  
8     and used car dealers.

9                 Even in the most ideal circumstances, this  
10    presents a challenge. We are committed to maximizing  
11    our clients' returns on their investments. The  
12    ability to do well in this area impacts the clients'  
13    actual depreciation, which is simply the largest  
14    expense that the fleet has in their budget.

15                The market for used alternate fuel  
16    vehicles has yet to be tested, let alone developed.  
17    For commercial fleet operations, the existence of that  
18    market and reasonable expectations on the residual  
19    value of vehicle needs to exist before the acquisition  
20    decisions can be made.

21                For these reasons, we urge you not to  
22    implement a private fleet acquisition mandate.

23                While we can attempt to force government  
24    mandated alternate fuel vehicles with their associated  
25    costs and inconvenience onto our customers, my fear is

1     that the result will be devastating. Businesses using  
2     passenger vehicles will simply switch to employee  
3     reimbursement for use of their own vehicles.

4             It is important to note that the average  
5     life of vehicles privately owned is eight to 8.5 years  
6     versus something between two and a half to three years  
7     for business fleets. Older vehicles, as we know, are  
8     less fuel efficient and have far greater emissions.

9     Any reversion of an organized fleet to a driver  
10    reimbursement program undercuts both the objectives of  
11    EPAAct and the Clean Air Act.

12            The prospect of a private fleet mandate  
13    under this rulemaking, as well as the prospect of a  
14    mandate under the later rulemaking, has existed ever  
15    since EPAAct was enacted more than four years ago. I  
16    believe it has destabilized the market and has caused  
17    some trial programs to be put on hold.

18            The atmosphere of uncertainty regarding  
19    the government's interference in fleet purchasing  
20    decisions has harmed, not helped, the attainment of  
21    EPAAct's goals. As a matter of policy, I'm hard-  
22    pressed to understand how any alternate fuel or  
23    vehicle provider could have the proper motivation and  
24    marketing incentives to provide the least cost,  
25    operationally effective vehicles and fuel when they

1     can rely instead of government mandates.

2                   PHH, like other fleet management companies  
3     is market driven. We must stay responsive to our  
4     customers and our market in order to remain in  
5     business. If government is to pursue an alternate  
6     fuel policy, it should be aimed at overcoming the  
7     barriers to greater alternate fuel use. Mandates are  
8     the wrong solutions and bring us to a political and  
9     economic cul-de-sac. Instead, incentives are, indeed,  
10    needed.

11                  With the right incentives, the private  
12    sector fleets could become effective promoters of  
13    alternate fuel, as fleet vehicles are used to call  
14    upon customers throughout the country, rather than the  
15    opposite result if they are subject to mandates.

16                  The commercial application, particularly  
17    organized fleets, would demonstrate to other  
18    businesses and, more importantly, to private  
19    noncommercial vehicle owners the feasibility and  
20    benefits of alternate fuels.

21                  The key is to create incentives for fleet  
22    operators to identify the applications where alternate  
23    fuel could be appropriate and allow those specific  
24    uses to grow. Mandates are not the answer. They tend  
25    to stifle innovative applications by fleet operators.

1                   I appreciate the opportunity to  
2     participate in this hearing today and urge this  
3     proceeding to be used to achieve a major course of  
4     correction for reaching our nation's energy policy  
5     goals.

6                   Thank you.

7                   MR. GROSS: Questions from the panel?

8                   MS. LEWIS: Yes. I would like to -- can  
9     everyone hear me?

10                  I would like to ask you a question in  
11     regards to incentives. It seems that each speaker  
12     here, as with some of the others I've heard, speaks  
13     about incentives, which is somewhat of a negative word  
14     for some people and a very positive word for others,  
15     but what kinds of incentives from your point of view  
16     would you like to see in place?

17                  MR. RALLO: One of the things that I would  
18     like to see is in the way of productivity that would  
19     help fleet managers look at these vehicles today.

20     Productivity enhancements could be in the way of green  
21     curbing, HOV lanes, where people would be able to  
22     travel around faster, make the servicing of their  
23     clients and so forth when they're making calls. That  
24     could be done in a quicker time rather than searching  
25     for parking spaces or perhaps being caught up in the



1 normal traffic lanes that many of us may be sitting  
2 in. So that could be one incentive.

3 I think other incentives could be from the  
4 standpoint of some tax credits. I think tax credits  
5 are very, very important to help offset the higher  
6 costs of these vehicles. Today you're looking at at  
7 least two, perhaps upwards of \$5,000 for some CNG  
8 vehicles. If you look at the marketplace dynamics  
9 today, this places a company that opts to do the right  
10 thing at this point in time -- it puts them in a  
11 noncompetitive position. It raises the cost of  
12 promoting their services and their products.

13 So it's very important to bring the cost  
14 of that thing down so that they can both remain  
15 competitive and, again, achieve and do the same things  
16 that we all want done.

17 MS. LEWIS: I have a problem up on the  
18 incentives arena in regards to HOVs and so forth. Are  
19 you saying that the federal government should put this  
20 into law or should we work very closely with the  
21 states?

22 And if that is the case, you will have  
23 some states doing one thing, another state doing  
24 something entirely different, and then another state  
25 doing absolutely nothing.

1                   So are you saying we should mandate this  
2     from the federal level if you go into these kinds of  
3     incentives, encouraging the states to do it? How do  
4     we handle this kind of thing?

5                   MR. RALLO: I probably have a lot of  
6     trouble with mandates. I'd like to work -- I'd like  
7     to see if we could cooperate and work with the states,  
8     in all seriousness, to see if we could bring it about  
9     that way.

10                  I think that most of the states,  
11     particularly if you look at the 21 nonattainment  
12     areas, I think that you'll find that there would  
13     probably be and has been already a lot of cooperation  
14     and desire to do the right thing.

15                  MS. LEWIS: Thank you.

16                  MR. KATZ: I have one.

17                  When you resell a vehicle, what percent of  
18     the original cost do you strive for? What is your  
19     goal? If the vehicle is 15,000, what do you strive to  
20     sell it for when you resell it?

21                  MR. RALLO: That's an excellent question,  
22     Mr. Katz. We obviously strive to obtain the maximum  
23     dollar back for our clients, but it is determined by  
24     a lot of different factors. It's determined by the  
25     type of vehicle, length of service, the mileage, parts

1 of the country. Sometimes even color can actually  
2 come into play.

3 So that tends to determine sometimes the  
4 percent of resale that you would recapture, but, for  
5 example, in a two year old vehicle, you're certainly  
6 striving to achieve at least a 50 percent recovery as  
7 a rule of thumb. If it's a three year old vehicle or  
8 something between two and three years, you're  
9 attempting to reach something between the 40 and 50  
10 percent and still, again, closer to that 50 percent  
11 number.

12 And, again, if you keep in mind, if you  
13 look at the total budget that a fleet manager has, and  
14 it doesn't really matter what type of business that  
15 they're in, you'll find that depreciation tends to be  
16 somewhere between 45 to 50 percent of the total cost  
17 of operating the fleet. So when you look at that, the  
18 residual value becomes a very significant item or  
19 variable in managing that cost number. It's very  
20 critical.

21 MR. KATZ: Okay. The second follow-up.  
22 Do you think you have any customers that would be  
23 willing to purchase or lease two or three year old  
24 AVFs that would be approximately half price of what  
25 they would have been originally?

1                   MR. RALLO: The way we market is that  
2       sometimes we market directly to the public through new  
3       car dealers. We sell through auctions and  
4       wholesalers, and we sell to our clients' employees, if  
5       you will. In most cases that is the driver of the  
6       vehicle itself.

7                   We have not found at this point in time a  
8       real receptive market for the few alternate fuel  
9       vehicles that we've been selling. I mean you can  
10      certainly sell anything, but there comes a point at  
11      what kind of dollars or what price are you receiving  
12      in return for those assets as they come off their  
13      service life, and today there have been significant  
14      differences between what someone has received for  
15      alternate fuel vehicles versus what someone has  
16      received for a petroleum powered vehicle today.

17                  We'd like to see that change, of course,  
18      and a lot of that is driven, I believe, by the lack of  
19      an infrastructure to support alternate fuel vehicles  
20      out there.

21                  One of the things I said in my testimony  
22      here is that I think that what I'd like to see is  
23      American business become a model to the consumers out  
24      there. If you look at today, you'll find that there  
25      are actually more used vehicles being purchased in the

1 United States today than there are new vehicles. A  
2 lot of that is driven by cost.

3 We don't see that scenario changing in the  
4 future at all. In fact, it will probably continue to  
5 increase to some larger percentage.

6 So as a result, there's a huge market out  
7 there for these vehicles, but there has to be an  
8 infrastructure that supports whatever vehicle is  
9 produced, that infrastructure being both in the  
10 ability to provide and to obtain fuel and in the  
11 ability to service that vehicle over its life,  
12 whatever that might be.

13 If we can put those things into place,  
14 then we can bring the consumers into this and really  
15 achieve that were intended by EPAct originally.

16 MR. KATZ: Thank you very much.

17 MR. GROSS: Ms. Tavenner, do you also have  
18 a statement?

19 MS. TAVENNER: Yes. Thank you, and I  
20 won't take the ten minutes.

21 I'm Mary Tavenner, and I'm Executive  
22 Director of the American Automotive Leasing  
23 Association of which PHH Fleet Management Services is  
24 a member.

25 AALA is a trade association representing

1 the commercial fleet leasing and management industry.

2 This industry owns over three and a half million of  
3 the fleet cars and light duty vehicles used by  
4 businesses throughout the United States, in contrast  
5 to the consumer car leasing business that limits  
6 itself to offering retail public alternative  
7 financing.

8 AALA members, like PHH, provide  
9 comprehensive fleet consulting and management services  
10 to commercial enterprises that involves ongoing post-  
11 purchase responsibilities. The range of services  
12 includes, first, selecting and acquiring the most  
13 appropriate and cost efficient vehicle for the  
14 particular work to be performed;

15 Second, assisting and operating and  
16 maintaining those vehicles safely, economically,  
17 including designing and implementing fueling,  
18 maintenance, and safety programs, as well as insuring  
19 compliance with state and local registration and  
20 operating requirements;

21 And, third, reclaiming at the end of the  
22 lease the highest value from the vehicle through  
23 auction, public sale, or other disposal that Jim has  
24 just described to you.

25 Barriers, as Jim also mentioned, to

1 alternative fuel development exist in each of the  
2 three routes I just described and which Jim talked  
3 about. While it is true that much attention has been  
4 focused on the first, acquisition, with cost, variety,  
5 and availability at the forefront, there has been less  
6 consideration to the residual value at resale, at the  
7 third and last phase of the life cycle of commercial  
8 vehicle.

9 AALA commends you for these hearings and  
10 how they have been handled, but there are inherent  
11 limits on what can be accomplished in hearings, as you  
12 probably know, however they are conducted. Because of  
13 these limitations and the need to take action under  
14 EPOA, AALA recommends and suggests that DOE conduct  
15 a forum organized along those topic areas for the  
16 purpose of examining and creating incentives that  
17 address the unique barriers inherent in each of these  
18 three areas.

19 While much could be accomplished by  
20 compiling those incentives that have already been well  
21 hashed, a forum with the right participants could also  
22 and, more importantly, generate new and creative  
23 incentives.

24 Who would be the right participants? We  
25 recommend representation from each of the three

1 interested groups from the private sector, fuels,  
2 vehicles, and fleet purchasers. As important though  
3 would be having representation from within the  
4 administration and possibly Congress that could  
5 legitimately participate in deliberations on tax  
6 incentives, transportation incentives, procurement  
7 preferences, environmental credits, as well as  
8 nontraditional incentives.

9 Much work has already been done on  
10 incentives. It would be incumbent that the effort not  
11 be zero based, but begin where others have left off.  
12 For example, the EPA Advisory Committee on Ozone  
13 Transport devoted significant resources to alternative  
14 fuel incentives.

15 In addition, major work has been done  
16 already by the bipartisan Natural Gas Vehicle Task  
17 Force chaired by Congressman Joe Barton.

18 The role of such a forum should not just  
19 be the development of incentives, but also developing  
20 ways to achieve their active, vocal support within  
21 other agencies and jurisdictions. It has been our  
22 experience that the level of federal support of even  
23 statutorily required incentives, such as the HOV lane  
24 exemption under the Clean Air Act, pales in comparison  
25 to the general enforcement activities associated with



1 mandates.

2 And, of course, AALA and its members would  
3 be pleased to work with you on developing the details  
4 of such a forum.

5 Thank you very much for the opportunity to  
6 testify, and by the way, if you haven't already  
7 figured it out, AALA opposes private fleet purchase  
8 mandates, as you have heard from both Jim Rollo, as  
9 well as witnesses that we have sent to both Sacramento  
10 and Dallas.

11 And I would be pleased, of course, to  
12 answer any questions you might have. Thanks again.

13 MR. GROSS: I appreciate your comment on  
14 incentives. Since you brought up incentives, let's go  
15 back to what our first speaker mentioned, Natural Gas  
16 Vehicle Incentives Act, resulting from Congressman  
17 Barton's --

18 MS. TAVENNER: Absolutely.

19 MR. GROSS: -- work, and I'd like to ask  
20 whether you've had a chance to look at that and what  
21 your take on it might be or would you rather wait  
22 until we have a forum and we'll put it on the table at  
23 that time?

24 MS. TAVENNER: Well, I'm glad you asked  
25 the question. Not only have we had a chance to look

1 at it, but we were actively involved in the process,  
2 which was actually quite gratifying because the  
3 Natural Gas Vehicle Coalition and AALA sat down  
4 together and decided where our commonalities were and  
5 where our conflicts were, came up with provisions that  
6 satisfied both of us, talked at great length to  
7 Congressman Barton's office, negotiated directly with  
8 him.

9 We are very happy, obviously, with the  
10 phaseout of the mandates. However, the three-year  
11 depreciation was something that was very important.  
12 What I have found in the fleet business is that even  
13 regular vehicles are depreciated for tax purposes.  
14 They have a much longer life under the tax code than  
15 they should, and so depreciation is one of the  
16 essential expenses that needs to be addressed.

17 And so the accelerated depreciation for  
18 vehicles is a great incentive for fleet owners, first  
19 of all, and all of the other incentives involve the  
20 tax credits, et cetera, are also valuable as well.

21 What we have learned also not just in the  
22 fleet business, but in the consumer business as well,  
23 is that everyone is motivated by price, and even  
24 consumers who purchase vehicles don't even so much  
25 care how much the vehicle costs as much as how much

1     the monthly payment is going to be.

2                   In a fleet business, that's a much more  
3     sophisticated calculation in how you arrive at your  
4     cost-benefit. So, you know, the idea is to get the  
5     cost of the vehicle down, get the infrastructure in an  
  
6     efficient way, and we think that the Barton bill goes  
7     a long, long way in getting us there. I think there  
8     are other people in the fuel business that would like  
  
9     to see their fuels included, as well as natural gas,  
10    because it is rather limited.

11                  But from the fleet perspective, AALA is  
12    very supportive of that approach.

13                  MR. GROSS: Thank you.

14                  Other questions?

15                  MR. McARDLE: I just have one quick  
  
16    clarifying question. In your suggestion of a forum,  
17    you're suggesting a forum for discussing incentives,  
18    and the three areas, I believe, were the three points  
19    you mentioned: vehicle acquisition, vehicle  
  
20    operation, vehicle resale; is that correct?

21                  MS. TAVENNER: Yes, that would be right,  
22    as well as any other issues that would come up.

23    There's been an awful lot of work done in this area,  
24    to begin with. This might be helpful to DOE, as well,  
25    to have some sort of stakeholders come together and

1 discuss how can we help you and how can the other  
2 agencies who are also working on incentives or who  
3 have discussed them, such as EPA, come together and  
4 maybe it would help your work as well.

5 MR. McARDLE: Thank you.

6 MS. TAVENNER: You're welcome.

7 MR. GROSS: Our next scheduled speaker is  
8 Mr. Chuck Clinton, representing the Metropolitan

9 Washington Alternative Fuels Partnership.

10 Good morning, Chuck.

11 MR. CLINTON: Good morning. My name is  
12 Chuck Clinton. I'm the Director of the D.C.

13 Government Energy Office, but today I'm representing  
14 the Metropolitan Washington Alternative Fuels  
15 Partnership sponsored by our Council of Governments,  
16 and I am the chair of the Alternative Fuels  
17 Partnership.

18 I'd like to provide a brief background to  
19 you on this partnership, then address three areas of  
20 your concern as identified in the notice of proposed  
21 rulemaking. Thirdly, I'd like to identify certain  
22 specific concerns that have been raised at our most  
23 recently partnership meeting, and then finally, I'll  
24 conclude with a summary statement.

25 The Metropolitan Washington Alternative

1 Fuels Partnership is a public-private group organized,  
2 as I said, by the Metropolitan Washington Council of  
3 Governments, our COG. It includes local governments,  
4 private fleet managers, area utilities, and other  
5 alternative fuel interests, nonprofit, environmental,  
6 and advocacy groups, federal and state governments,  
7 and representatives of academia.

8 In 1990, the COG board formed a group to  
9 study avenues of public-private partnership  
10 specifically in energy management. Alternative fuels  
11 emerged as the main focus, the main area of concern,  
12 and so in March 1994, the group was sanctioned as a  
13 public-private partnership by the COG board of  
14 directors.

15 During the same year, the COG board  
16 endorsed and joined the DOE National Clean Cities  
17 Program. I believe we were the sixth of the national  
18 clean cities to be selected.

19 We are committed to working together to  
20 develop workable solutions to problems that are both  
21 environmentally and economically vexing. Our members  
22 include 18 local governments, Pepco, Washington Gas,  
23 Amoco, Sun Oil, the Metropolitan Washington Airports  
24 Authority, the Mid-Atlantic Regional Air Management  
25 Association, and some DOE, EPA, Department of

1 Interior, and GSA representatives.

2 Your three areas of concern were  
3 reassessing whether or not the ten percent by 2000 and  
4 30 percent by 2010 fuel displacement targets are  
5 reasonable; a determination of what types of action  
6 are necessary to achieve the goals stipulated by  
7 EPAct; and an evaluation of the competitive and unfair  
8 advantage issues related with fuel providers and  
9 manufacturers.

10 Now, in the first one, are the  
11 displacement targets unlikely? Given present trends,  
12 our deeply entrenched habits and other obstacles, we  
13 do not think that ten percent by 2000 or 30 percent by  
14 2010 displacement goals are attainable at the present  
15 time, and why do we say that? Well, here are some of  
16 the difficulties that we see.

17 Neither the Energy Policy Act, nor the  
18 Clean Air Act and its amendments seem to spurring the  
19 automobile or the alternative fuels industry as had  
20 been intended by DOE or EPA. While most fleet  
21 mandates will probably be met, it seems there will be  
22 negligible petroleum displacement due to bi-fuel,  
23 alternatively fueled vehicles still using gasoline.

24 According to the American Gas Association,  
25 75 to 80 percent of the vehicles across the nation

1     that are supposedly AVF are, in fact, bi-fuel, and  
2     approximately half of these are still operating with  
3     gasoline, according to the Science Applications  
4     International Corporation, located in one of our  
5     suburbs in this area.

6             The result of this fact for fleet owners  
7     who have invested between 2,500 and \$5,000 per vehicle  
8     in conversion costs is that they do not always  
9     experience a return on that investment. They, to  
10    their credit, have committed substantial capital  
11    outlays, have lost the use of their vehicles during  
12    the time the conversion was being taken care of, have  
13    lost use of their employees' time because of the  
14    additional training that was required, and have  
15    experienced the added burden of paper work to monitor  
16    and track for compliance to all of the various  
17    mandates.

18            For the utilities, the result is that  
19    they're just not making money as a result of this  
20    investment. It costs them to build an AVF refueling  
21    station. Just as difficult, it takes a lot of  
22    consumption to justify the existence of an individual  
23    refueling station. The chicken or the egg problem is  
24    still with us, and unfortunately until we get it  
25    solved, everybody is experiencing difficulty.

1                   Let's consider the added dilemma that a  
2     fleet operator faces. Many fleet operators do not  
3     have on-site AVF refueling stations. For example, we  
4     have been informed by one particular large user, who  
5     happens to be active in our partnership, that not  
6     having on-site refueling translates into an annual  
7     loss because they have 7,000 of these vehicles of \$4  
8     million just to travel an additional five miles on  
9     each trip that is required to refuel for their  
10    particular fuel of choice.

11                  Added man-hours in staffing underscores  
12    the adage "time is money." But just as important, if  
13    these fleet operators do not use these alternative  
14    fuels, then they're not going to get a return on the  
15    investment that they have made for which we commend  
16    them.

17                  With these types of problems plaguing both  
18    fuel providers and users, it should be no wonder that  
19    when vehicles are converted to satisfy the mandates,  
20    half of them are still running on gasoline.

21                  This being the case, DOE's fuel  
22    displacement goals are unlikely to be achieved in the  
23    current time frame, given the current situation.

24                  Your second area of concern has to do with  
25    actions required to achieve the displacement goals



1     that you've set. The federal government should, and,  
2     in fact, has set the tone if we're going to solve this  
3     particular problem. Unfortunately though we haven't  
4     yet achieved success, and it doesn't look like there's  
5     any easy way to accomplish the total success that  
6     we're looking for.

7             For starters though the solution lies in  
8     a strong conviction, a strong commitment. If we don't  
9     believe that this an important thing to do, then  
10    chances are we're not going to follow through on doing  
11    it. So the government needs to be the first and the  
12    foremost to set the tone, make the commitment, and  
13    stick with it.

14            The alternative fuels market needs a  
15    favorable climate in which to prosper. Washington  
16    should lead by example. There should be no relaxation  
17    of the EPA's fleet percentage goals for the federal  
18    government fleet purchase requirements.

19            The federal government, additionally,  
20    should continue to encourage auto makers, fuel  
21    providers, and end users to purchase and to use  
22    alternatively fueled vehicles. Both the federal  
23    government and the auto industry should develop  
24    incentives to increase the purchase of AVFs.

25            The federal government should likewise

1       continue to support local alternative fuels efforts.

2       Local initiatives should continue to be supported  
3       either by direct funding or in kind services or other  
4       kinds of support.

5                   The Metropolitan Washington Alternative  
  
6       Fuels Partnership and its Clean Cities Program have  
7       proven to be successful examples whereby we promote  
8       and develop the alternative fuel policies and  
  
9       practices in this region and carry out the very  
10      mandates that you, the federal government, have put in  
11      front of us. We'd like to see continued support for  
12      these kinds of programs. We applaud you for what  
  
13     you've done, and exhort you to continue doing what  
14     you're doing.

15                  The DOE should also focus on developing  
  
16     incentives for voluntary efforts rather than mandated  
17     efforts. If you couple a voluntary effort with an  
18     incentive, you bring the best out of business and  
19     government as they work together. Innovative  
  
20     incentives can make it worthwhile for the AVF cause  
21     and help displace even more petroleum.

22                  One idea is cooperative wholesale purchase  
  
23     of fuel, conversion kits, and vehicles. Cooperative  
24     buying works for other commodities. Why not for AVFs?

25                  I'd like to put in a plug for the Council

1 of Governments. It's not my prepared remarks, but the  
2 fact is in this region, all jurisdictions with one or  
3 two exceptions join together for the purchase of all  
4 the heating oil or other kinds of petroleum product  
5 that will be needed this particular winter to heat and  
6 otherwise provide energy to our various local  
7 government buildings.

8               It works. In one kind of fuel, Fairfax  
9 County may take the lead for doing the purchase. In  
10 another kind of fuel, the District government may, but  
11 everybody collaborates, and everybody gets a price  
12 break and spreads the work that's required.

13               DOE could focus some resources on  
14 developing a model that could be national for the  
15 implementation that demonstrates that, in fact,  
16 cooperative purchasing does work. This model would  
17 consider the buying cycles of local and federal  
18 governments, as well as the private sector.

19               Local, federal, industry, and private  
20 sector purchasing officials would come together and  
21 develop a two-year lead acquisition and production  
22 plans.

23               The Department of Energy should also  
24 continue to focus on innovative outreach. The AVF  
25 story is just beginning to be told. It reminds me of

1 a quote by G.K. Chesterson. He said, "It isn't that  
2 Christianity has been tried and found wanting. It's  
3 that Christianity hasn't been tried yet." And I would  
4 submit the corollary applies here. We haven't really  
5 yet tried making AVFs work across this country. It  
6 isn't that we've tried it and failed. We haven't  
7 tried yet. We've got an awful lot more effort to put  
8 into this.

9 So the DOE needs to continue to support  
10 innovative market and outreach activities to make this  
11 a reality.

12 There are several competitive trade  
13 related issues, including the definition of fuel  
14 availability, fuel and vehicle price, and vehicle  
15 availability. These particular concerns are outlined  
16 in my statement for the record.

17 I'd like to proceed then to just a couple  
18 of other specific comments that have been made at our  
19 most recent partnership meetings. At the most recent  
20 convening of the Washington Alternative Fuels  
21 Partnership, these particular points were made.

22 Number one, incentives are always more  
23 effective than mandates to get human beings to do  
24 something.

25 Two, the dual fuel issue has to be

1     addressed somehow successfully since fleet operators  
2     are human beings, and they tends to skirt the  
3     requirements and to follow the path of least  
4     resistance. They may be, in fact, complying with the  
5     letter of the law, but clearly they are not complying  
6     with the spirit of the law.

7             Thirdly, our membership believes strongly  
8     that an after market goal is needed for potential  
9     resale of these AVFs. There's some interesting  
10    possibilities, I think, with the federal government  
11    fleet vehicles in this particular area. They seem to  
12    have a much more rapid turnover cycle than is the case  
13    for either the D.C. government or so many of our local  
14    governments in this area.

15            Fourthly, the current inequities  
16    associated with taxing alternative fuels, such as  
17    propane, must be addressed.

18            Fifthly, tax stickers for AVFs should be  
19    considered.

20            Sixthly, funding for clean cities should  
21    be continued.

22            Seventh, burdens associated with reporting  
23    requirements, such as the daily trip log, should be  
24    minimized if it's at all practical.

25            Eighth, there are communications problems

1 across states and county jurisdictions as they relate  
2 to AVFs, and they need to be somehow coordinated so  
3 that there is consistency both regarding the rules and  
4 the regulations.

5 I'm reminded that when we had in 1979 the  
6 major gasoline crisis. We had one kind of odd-even  
7 day here in this area and another kind of odd-even as  
8 you went up I-95, and I think we're working to make  
9 sure that does not happen with respect to AVF HOV  
10 restrictions and so forth, but a lot more work needs  
11 to be done to coordinate things across jurisdictions.

12 DOE could consider direct -- this is my  
13 ninth point -- assistance to local governments to help  
14 address specific problems the jurisdictions have.

15 And lastly, tenth point, in order to  
16 achieve these EPAct goals, incentives, funding,  
17 grants, tax credits, tax deductions, accelerated  
18 depreciation allowances, all of these are necessary  
19 for those who lease alternatively fueled vehicles so  
20 that a sustainable AVF resale market can come into  
21 being.

22 By way of summarizing, just let me say  
23 that our partnership has a consensus that says we need  
24 all to continue to work together to identify and to  
25 facilitate innovative incentives to make our local

1 governments more aggressive, more successful in the  
2 utilization of AVFs.

3 We strongly support incentives as opposed  
4 to mandates, and we would like to see whatever market  
5 or political incentives that are cost effective and  
6 workable the ones that are chosen.

7 The city administrator for whom I worked  
8 at one point made the point over and over: if you  
9 cannot measure what it is you're doing, then you're  
10 leaving me skeptical that you're doing anything, and  
11 that's the point with which I'd like to conclude. All  
12 of this that we're doing, if we can't quantify it and  
13 measure it and be able to say to people without any  
14 doubt whatsoever, "This is, in fact, the number of  
15 vehicles or the number of stations that we've

16 accomplished," then I don't think we're doing the job.

17 So whatever we do together, let's see if  
18 we can't make it quantifiable and measurable.

19 I very appreciate the opportunity to make  
20 these comments before you, and I wish you all the best  
21 in making your decisions on the final regulations.

22 MR. GROSS: Thank you very much, Mr.

23 Clinton.

24 We will perhaps take a question or two.

25 MR. McARDLE: Yes. I just have one quick

1 question in that regard. Your reference to the tax  
2 inequities of the various alternative fuels, what's  
3 your suggestion on that area or do you have one?

4 MR. CLINTON: I don't have a specific  
5 suggestion, except to say that we need somehow to  
6 provide the proverbial level playing field so that no  
7 one provider of a specific fuel can claim that he or  
8 she is being discriminated against and can't compete  
9 evenly with the rest of them.

10 MR. McARDLE: Thank you.

11 MR. GROSS: Mr. Katz?

12 MR. KATZ: The bi-fuel vehicle issue, that  
13 was brought up earlier and I'm sure will be brought up  
14 again. Do you have any suggestions of how to  
15 encourage the operators of the vehicles to use  
16 alternative fuels as opposed to the gasoline?

17 MR. CLINTON: Again, consistent with what  
18 I've tried to make as my overriding suggestion here,  
19 we need to provide an incentive to them that makes it  
20 more to their advantage. In a given work place, it  
21 might be keeping a tally.

22 I believe most vehicles have an odometer  
23 that splits off the miles that are operated by, say,  
24 natural gas versus gasoline, and maybe we need to put  
25 a little effort into keeping a public record of Mr.



1     Katz drove 60 miles on gasoline this week, but 150 on  
2     natural gas, and then the next week after those so  
3     that Mr. Katz improved, and give him some sort of  
4     public pat on the back. That would be one specific  
5     incentive that I think might work.

6             MR. KATZ: Thanks.

7             MR. GROSS: Thank you.

8             MR. CLINTON: Thank you.

9             MR. GROSS: Our next scheduled speaker is  
10    Mr. John Huber. Is he here?

11            (No response.)

12            MR. GROSS: We'll come back to him then.

13    Our scheduled speaker after him is Mr. Robert Eckels.

14            Mr. Eckels is not here either. He must be  
15    taking a break. Okay.

16            MR. KATZ: There's a few people in the  
17    hall, Andi.

18            MR. GROSS: Mr. Eckels.

19            MR. ECKELS: Yes, sir.

20            MR. GROSS: All right.

21            MR. ECKELS: I'm sorry I'm late.

22            MR. GROSS: We jumped ahead a little bit

23    because the previous speaker has not signed in yet.

24            MR. ECKELS: That's fine. I'm glad to be  
25    here. I apologize for being outside. I was just

1 sitting here thinking of how I could make my testimony  
2 shorter, too, having spent many hours sitting in  
3 similar hearings as this.

4 (Laughter.)

5 MR. ECKELS: I am Robert Eckels, county  
6 judge of Harris County, Texas. As such, it's  
7 equivalent of the county executive in most areas, the  
8 presiding officer of our Commissioner's Court.

9 I'm also here today representing the  
10 National Conference of Elected County Executives.

11 Harris County, and you have got copies of  
12 my testimony. I'll try to hit the high points of that  
13 and not fill in everything that you can read along,  
14 but Harris County is the third most populous county in  
15 the nation. We have over 3.2 million residents.

16 Approximately 850,000 of those live outside of any  
17 incorporated area, which alone would be the 11th  
18 largest city in America.

19 The City of Houston represents about 55  
20 percent of county, and of course, it's the fourth  
21 largest city in the country.

22 We also are a large county, 1,780 square  
23 miles. It covers a large territory, as well as a lot  
24 of people.

25 We have directly employed over 13,500

1 employees. That does not include, and I will limit my  
2 comments to the direct impact on the county operations  
3 itself. We also have our associated entities, such as  
4 the hospital district which has another 10,000  
5 employees and hundreds of their own vehicles, and we  
6 set their budget and tax rate and all, as well, but I  
7 will limit the comments I have here to those directly  
8 affecting Harris County and the impact that this might  
9 have on Harris County.

10 Our vehicle fleet is approximately 2,200  
11 cars that fall below the 8,500 pound gross vehicle  
12 weight limit that's affected by the Energy Policy Act  
13 of '92. Of those, about 1,300 are law enforcement  
14 vehicles. That seems to be growing all the time, but  
15 that leaves us with about 900 cars that are affected  
16 by the regulations we're talking about today.

17 And just with that 900 vehicles in the  
18 area we're talking about, we replace about 16 percent  
19 of those each year. Each vehicle is replaced about  
20 every 6.25 years. Most all of these are cars, some  
21 light trucks, and most of them use gasoline as the  
22 fuel.

23 I'm going to assume that the fuels for our  
24 discussion today that are acceptable as alternative  
25 fuels are the same as those that meet the requirements

1 of the Alternative Fuel Transportation Program for the  
2 Energy Policy Act of '92. For reasons that I will  
3 briefly go over, I guess that we only find two of  
4 those fuels to be acceptable alternatives for us.

5           The methanol denatured alcohol and other  
6 alcohols even if they're 100 or 85 percent mixtures,  
7 we see them as a health and safety risk for our  
8 workers, more costly than gasoline, and more corrosive  
9 and poisonous, and leading to higher cost replacements  
10 for our fuel lines, engines, and the parts that come  
11 in contact with those fuels.

12           The hydrogen, coal derived liquid fuels,  
13 fuels derived from biological materials, they're not  
14 as readily available. Refueling systems are not  
15 there. The conversion kits aren't as available for  
16 them.

17           Our electrically powered vehicles,  
18 although I drove one yesterday and really enjoyed it,  
19 they're not yet available on the market. They don't  
20 have the range necessary, and particularly for our  
21 conditions and driving situations in Houston.

22           That leaves us with CNG, the compressed  
23 natural gas or the liquid gas. As we replace about 16  
24 percent of our fleet each year, or 144 vehicles that  
25 would be affected by this act, the acquisition

1 requirements for local governments, if it's the same  
2 as for state governments, the vehicle is not as  
3 generally available to us as those that we currently  
4 buy, our replacement vehicles. I think we've heard  
5 some people talking about that earlier.

6               We can convert our gasoline powered  
7 vehicles or purchase them, especially equipped  
8 vehicles. It costs us about 15 to 25 percent more per  
9 vehicle to equip them. The vehicle, to be able to run  
10 on CNG, would cost us about \$3,500 more per vehicle.  
11 Using the LPG would cost about 3,000 more per vehicle.

12               Using the acquisition percentages that  
13 have been established for state and fuel provider  
14 fleets as a guidelines, using CNG as an alternative  
15 fuel for new vehicle purchases would cost us an  
16 average of approximately \$176,400 each year for the  
17 first five years, with the cost of 54,000 and \$75,600  
18 in the second year, 126,000 in the third year, 252,000  
19 in the fourth years, 378,000 in the fifth year and  
20 each year thereafter.

21               Using LPG as an alternative fuel for new  
22 vehicles, it would cost Harris County approximately  
23 \$150,800 in additional dollars each year for the first  
24 five years, or the first year of cost of 43,000,  
25 increasing to the third year to \$216,000, and

1 ultimately to the \$324,000 figure.

2               Now, because of the size of Harris County  
3 and the distances they must travel on any day, fueling  
4 these vehicles is a particular problem, and that's one  
5 of the key points that we have here. It's a difficult  
6 exercise for us. We have over 27 fueling stations in  
7 the county that we use. The CNG fueling stations are  
8 estimated to cost about \$400,000 each. We think it  
9 will take at least five of these for the initial use,  
10 and ultimately we would need to have them more evenly  
11 distributed around the country.

12              The minimum start-up cost would be \$2  
13 million in fueling stations alone.

14              To use LPG, the minimum start-up cost  
15 would be somewhat less, at about half a million  
16 dollars, but we would have to then develop a system  
17 for installing those throughout the county as well.

18              One of the important considerations we see  
19 for offering a fleet with alternative fuels is the  
20 range of the vehicle. With a fuel tank, the CNG would  
21 be able to go maybe 120 miles. For that reason and  
22 because of some of the other safety concerns as we get  
23 into the tunnel systems and things in our community,  
24 we think the LPG would be a more viable alternative.

25              Using the LPG, the cost is somewhat less.

1 We concede that we would recover some cost by the  
2 lower cost in the fuel than our gasoline. Our  
3 gasoline costs are about 83 cents per gallon. We look  
4 at LPG as about 61 cents per gallon.

5 But when you look at the fuel savings and  
6 our cost per vehicle, it takes approximately ten years  
7 to recover the cost, and with our replacement cost of  
8 vehicles or replacement cycle at 6.25 years, we never  
9 get there.

10 We look at all of the costs to our county.  
11 The total cost to Harris County of the additional new  
12 vehicle costs, the fueling costs, the fuel cost  
13 savings, all lumped in together, and to become  
14 operational the cost for the LPG would be \$538,000-  
15 plus. The second year it would go up to 558,000, then  
16 kicks up to nearly \$700,000 in the fourth year, and  
17 then almost \$500,000 in the fifth year. It's over  
18 three and a half million dollars in six years alone to  
19 make this conversion to the liquified gas.

20 We also think that difficulties for local  
21 governments would occur in complying with rules that  
22 may be promulgated by the Department if those  
23 regulations don't take into consideration other  
24 federal and state regulations governing alternative  
25 fuel vehicles.

1 Harris County is required to be in  
2 compliance with the Texas Clean Air Act by September  
3 of '98. We are required to purchase a large  
4 percentage of new alternate fuel vehicles that comply  
5 with the emission standards established by the state  
6 legislature, and there may be conflicts that occur in  
7 the regulations that come out here.

8 Although I agree with the intent of the  
9 Energy Policy Act to preserve petroleum and petroleum  
10 products and to reduce our dependence on foreign oil  
11 by using alternative fuels, as the chief executive,  
12 the cost of implementing this program would be a great  
13 shock to our county budget. It's already being pushed  
14 to the limit many times from the federal government  
15 and from regulations that come in here, recent changes  
16 in Medicare/Medicaid laws. All of those things come  
17 out of the same budget that we have.

18 It's my guess that our county is not that  
19 much different from most other counties in the  
20 country. Certainly our situation is similar to that  
21 of the City of Houston and others. Their problems  
22 would be slightly larger than ours because they have  
23 a larger fleet.

24 In Harris County, we're sensitive to the  
25 need to preserve our petroleum reserves. As a member



1 of the legislature, and prior to this I served 12  
2 years in the house; I carried the legislation to  
3 encourage the use of alternative fuels, particularly  
4 natural gas which is important to our state and  
5 produced largely in our state, but the transition  
6 would be smoother, I think, if it was voluntary and  
7 drive much more by the desires of local communities.

8 We are working hard to do that at home.

9 We are working on our conversion process as it makes  
10 sense for us economically, and we can do so without  
11 putting an undue burden on the taxpayers.

12 At this point I would request that because  
13 of these factors that the Department of Energy not  
14 issue final regulations for the Energy Policy Act of  
15 '92. Instead I would recommend that the program be  
16 suspended and Congress be given the responsibilities  
17 to review the goals of the program, review the program  
18 in the context of an unfunded mandate, and work  
19 together to produce a program that rewards voluntary  
20 compliance and does not impose an unfunded mandate on  
21 local governments.

22 I'll be happy to answer any questions that  
23 you have about the impact on our community, and we  
24 have the background information if you need specifics  
25 on these numbers.

1 MR. GROSS: Do you have questions?

2 MR. McARDLE: Yes, I have one real quick  
3 question. In your cost analysis, your ten-year cycle,  
4 did you assume that the propane vehicle had an  
5 incremental cost of \$3,000 throughout that time frame?

6 MR. ECKELS: For each vehicle?

7 MR. McARDLE: Yes.

8 MR. ECKELS: We did it on a car. If we  
9 converted it today, you know, what would it be?

10 MR. McARDLE: And just assumed that cost  
11 to be --

12 MR. ECKELS: Assumed that cost down the  
13 line. You know, that was how we arrived at that  
14 number on the conversion cost.

15 And, Ms. Lewis, you mentioned earlier or  
16 I think you had commented, too, about the way we would  
17 do this and different regulations in different states  
18 and how that might be versus a national policy that  
19 was consistent. That does not offend my sense of the  
20 way it might work because things that might work in  
21 Houston may be very different, for Harris County may  
22 be very different than what would work here in  
23 Washington, D.C. area or another climate or place  
24 where the road conditions were different.

25 I much prefer the idea of looking toward

1 incentives, be they parking, you know, green curbs as  
2 it was described earlier for these vehicles. One of  
3 the things I had suggested was tax incentives myself  
4 that would eliminate or reduce the taxes on these  
5 vehicles and some of the fuels that are used in these  
6 vehicles.

7               You can look at some of the things that  
8 have been done with the electric cars where you've had  
9 outright financial incentives to the companies to  
10 develop and market these.

11              I think there's a range of options you  
12 could do that do not just push this cost down on the  
13 local taxpayers because ultimately whether the folks  
14 are paying for it at the federal level or at the state  
15 level or at the local level, they're all the same  
16 taxpayers, and they're going to have to pay for it,  
17 and we would assume that we were able to develop a  
18 plan that worked well for our local communities, and  
19 I would love to work with the Department on developing  
20 these regs. and how it might work.

21              I think that we can do that. The goals,  
22 I think, are noble and important for our community and  
23 our country and certainly for the Texas oil and gas  
24 industry, but more importantly, we should do it in a  
25 way that does not force this burden on the local

1     taxpayers in Harris County or in any other part of the  
2     nation.

3                 MS. LEWIS: I'd like to ask you a question  
4     since you said my name.

5                 MR. ECKELS: I've been trying to listen to  
6     what you've been asking.

7                 MS. LEWIS: I want to ask you. I'm not an  
8     economist, but maybe I can talk to Paul later, but  
9     perhaps you could give me the information, as well.  
10    Your cost analysis of how much it would cost over the  
11    years of this program, you gave us a total price for  
12    year, year, year. Did you consider the possibility,  
13    and hopefully that would happen if this would go into  
14    effect, that the more vehicles are bought by local  
15    government's private fleets, the more vehicles are  
16    going to be sold? Consequently the prices of those  
17    vehicles are going to go down.

18                So did you take that into consideration  
19    going all the way out to the year 2000 or whatever?

20                MR. ECKELS: In our analysis of this, we  
21    did not consider a future reduced price. We tried  
22    that. We have done this in Texas, and when I served  
23    in the legislature, we tried doing this and mandating  
24    that our local -- and it was not just on these types  
25    of vehicles. It was our fleet vehicles, primarily our

1 school buses, our metro buses in Houston.

2 Today we have about 1,200 metro buses in  
3 Houston that are operating on LNG or, I guess, LPG.  
4 They cost about \$60,000 a piece to convert, and it has  
5 been a tremendous burden on the local taxpayers to try  
6 to support that program. We are continuing to do it,  
7 but the legislature was forced to provide some relief  
8 in the last session for that program in Texas because  
9 it did not work as it was anticipated.

10 We thought if we made everybody do it the  
11 price would come down, and there's enough vehicles in  
12 those fleets that you would think it would do so, but  
13 the cost was still tremendously more to convert and  
14 operate those buses on the LNG than it is on the  
15 diesel fuel that they normally would use.

16 And the schools have been faced with the  
17 same problem. When you're trying to make a decision  
18 of whether to pay a teacher or pay to convert a bus,  
19 it's difficult to justify the additional cost for a  
20 liquified or alternative fuel bus when you've got  
21 schools that are falling down around the kids today,  
22 and all of these dollars come out of the same pot.

23 You know, I think it can be made to work  
24 over time, and I think that the market can drive that  
25 without the federal government dropping these mandates

1 on us. We have tried that at home, and it hasn't  
2 worked.

3 But more importantly, I think it can work  
4 better with some kind of partnership from your local  
5 communities that are having to pay the tab for this to  
6 voluntarily comply and come in with the efforts and  
7 try to meet those goals without the mandate coming in  
8 from the federal government.

9 MS. LEWIS: Thank you.

10 MR. GROSS: Thank you very much, Mr.  
11 Eckels.

12 MR. ECKELS: Thank you very much for  
13 having me up.

14 MR. GROSS: Our next speaker is Mr.  
15 Timothy Davis.

16 MR. DAVIS: Good morning, ladies and  
17 gentlemen. Thank you for allowing us to make our  
18 presentation this morning.

19 My name is Tim Davis. I'm the immediate  
20 past President of the National Council of Elected  
21 County Executives. I am also here today representing  
22 Summit County, Ohio, or Akron as our county seat. I  
23 represent it as its county executive, and these  
24 comments have also been endorsed by the County  
25 Commissioners Association of Ohio.

1                   The National Council of Elected County  
2 Executives is comprised of elected executives  
3 representing over 500 counties throughout the United  
4 States. Collectively we represent approximately 30  
5 percent of our nation's taxpaying population.

6                   Over the past several years the federal  
7 government has launched numerous programs that promote  
8 the use of alternative transportation fuels. These  
9 programs are diverse in nature, supporting everything  
10 from production of alternative transportation fuels to  
11 the development of the marketing infrastructure for  
12 the fuels.

13                  When subsidies did not deliver results of  
14 sufficient magnitude, lawmakers responded with  
15 mandates requiring that certain classes of fuel users  
16 acquire and operate alternate fuel vehicles in lieu of  
17 conventional gasoline or diesel powered vehicles. The  
18 mandates ultimately have resulted in higher costs to  
19 the taxpayers.

20                  In 1992, Congress passed the Energy Policy  
21 Act, including Titles III, IV, and V, which  
22 established a national alternative fuels program.

23 Under that law, Section 507(a), the Department of  
24 Energy is authorized to mandate for local governments,  
25 including county and municipal fleets, a vehicle

1 acquisition schedule beginning with a 20 percent  
2 purchase requirement in model year '99 to 2001. The  
3 purchase requirements increase to 70 percent beginning  
4 in 2006 and every year thereafter.

5 In addition, these same regulations will  
6 also require private fleets to purchase alternatively  
7 fueled vehicles along a similarly prescribed schedule.

8 We are very concerned with this proposal,  
9 as well as the implementation of DOE's rule finalized  
10 earlier this year. That requires alternative fuel  
11 providers and state governments to begin purchasing  
12 alternative fuel vehicles in 1996.

13 The Energy Policy Act program will impact  
14 county and municipal governments in the following  
15 manner. Local governments must operate on a balanced  
16 budget. I only mention that as a contrast to the  
17 federal government.

18 (Laughter.)

19 MR. DAVIS: It's tough out there, isn't  
20 it?

21 Further, we do this based on estimated  
22 revenues. I am currently in the process of presenting  
23 to my county council the 1997 budget. This is, in  
24 effect, a guesstimate since we must forecast the  
25 amount of revenues we will gain through the end of



1     next year. The county and municipal fleet alternative  
2     fuel requirement is simply an unfunded mandate added  
3     to that process.

4                   At what point do I go back and start  
5     adding this kind of budgeting into that process?

6                   The advanced notice of proposed rulemaking  
7     states that the Unfunded Mandates Reform Act of 1995  
8     and Executive Orders 12,866 and 12,875, quote,  
9     "require careful consultations with stakeholders and  
10    creative exploration of alternatives to regulation  
11    that could achieve the statutory objectives."

12                  The DOE should evaluate all the possible  
13    alternatives with the stakeholders, including local  
14    governments, so as to arrive at a solution that  
15    minimizes the financial impact. Otherwise the county  
16    and municipal alternative fuel fleet requirements may  
17    require counties and local governments to increase  
18    property taxes or other local taxes, such as sales  
19    taxes, in order to balance their budgets.

20                  The DOE has thus far failed to meet the  
21    statutory deadlines for the Energy Policy Act's  
22    alternative fuel programs. In establishing the  
23    rulemaking for the state government fleets and fuel  
24    providers, the DOE was to have promulgated the rule by  
25    January 1, 1994, to allow over 20 months of lead time

1 or until September 1 of 1995 before vehicle

2 acquisition for model year 1996 would have begun.

3 The DOE did not complete this rulemaking  
4 until March 14, 1996, and had to extend the vehicle  
5 acquisition statutory deadline by one model year out

6 beginning in September 1, 1996. This delay has  
7 created serious problems for state and fuel provider  
8 fleets who will not have as much time as allowed in

9 the statute to obtain and insure proper operation and  
10 maintenance of their alternatively fueled vehicles.

11 Consequently, it is recommended that any  
12 subsequent mandates on county and private fleets also  
13 be delayed until the DOE can observe the full  
14 implementation of the first phase of DOE's alternative  
15 fuel vehicle program.

16 This delay would allow DOE to determine if  
17 there are any improvements that can be made to the  
18 overall DOE program prior to developing the next  
19 rulemaking for private and local government fleets.

20 An early failure in its first step of  
21 DOE's alternative fuel vehicle program for fuel  
22 providers and state government fleets could result in  
23 a complete collapse of the entire program, if not  
24 corrected prior to implementing the private fleet and  
25 local government program.

1           The DOE should suspend this rulemaking to  
2   allow sufficient time to observe the implementation of  
3   the fuel provider and state fleet program.

4           Under the Clean Air Act, clean vehicle  
5   requirements in nine metropolitan areas are already  
6   required to use reformulated gasoline, but under DOE's  
7   program these areas are not allowed to use  
8   reformulated gasoline. This inconsistency in the two  
9   statutes is very confusing. Local officials only have  
10  -- elected officials only have a certain capacity to  
11  understand the complete opposites.

12                   (Laughter.)

13           MR. DAVIS: The Energy Policy Act requires  
14   the DOE to determine the technical and economic  
15   feasibility of achieving the goals of producing  
16   replacement fuels. The DOE has not yet completed this  
17   study of the technical and economic feasibility of  
18   meeting the Energy Policy Act's ten to 30 percent  
19   replacement fuel goals.

20           Prior to requiring further alternative  
21   fuel vehicle mandates, the DOE must complete the  
22   feasibility study in order to determine if the ten to  
23   30 percent targets are, in fact, even feasible.

24           Over the last several years county  
25   municipalities have incurred significant cuts in state

1     and federal support. Counties are being asked to bear  
2     the burden of state and federal budget cuts in  
3     addition to balancing their own budgets. DOE's  
4     proposals will require significant increases in local  
5     government tax assessments in order to pay for these  
6     alternative fuel replacement programs.

7             This is another classic example of federal  
8     government's unfunded mandates. We understand that  
9     alternatively fueled vehicle purchase costs are  
10    significantly higher than traditional gasoline powered  
11    vehicles. For instance, we have been advised that  
12    compressed natural gas vehicle conversion adds  
13    somewhere between three to \$7,000 to the cost of the  
14    conventional vehicle.

15            In Summit County, Ohio, we have over 1,600  
16    fleet vehicles which at a conversion cost of \$5,000  
17    per vehicle will ultimately cost \$8 million to convert  
18    to compressed natural gas.

19            It should also be noted that there are  
20    over 500,000 vehicles registered in my county, and  
21    that Summit County is at the very center of the  
22    crossroads of the interstate system of Ohio. This  
23    interstate system adds many more vehicles passing  
24    through Summit County on a daily basis.

25            Further, there are over 200 trucking firms

1     alone that do business in Summit County. I guess my  
2     question is: what impact will the alternative fuel  
3     requirement on 1,600 vehicles have on air quality in  
4     our area? What benefits will the citizens receive  
5     when they will experience cuts in services due to  
6     funding of this project?

7                 I can assure you that nobody is going to  
8     run for office on raising taxes to put compressed  
9     natural gas cars on the road.

10                To our own credit, we have committed to  
11    changing our entire metro bus fleet to an alternative  
12    fuel propulsion. This being done in a budgeted,  
13    phased in manner.

14                Additionally, there are some more  
15    questions from county taxpayers. Could the funds be  
16    used in a more beneficial program, such as crime  
17    prevention or education, or to administer the  
18    responsibility of the welfare programs recently  
19    shifted to local governments by the bill signed by the  
20    President?

21                It seems to me that a much more beneficial  
22    and cost effective program would be the encouragement  
23    of alternative forms of transportation, such as  
24    commuter rail in our community. Not only would the  
25    subsidy not be as large, but we may save more money

1     due to less repairs on the highway system.

2                 Additionally, the county would have less  
3     repair on the secondary road system that feeds the  
4     interstate system. That repair all falls back on the  
5     county budget.

6                 A more productive economy would result  
7     from a diversified transportation system, leading to  
8     a stronger economic base on which to develop

9     alternative fuel programs over the long run.

10                These unfunded mandates keep coming from  
11     federal and, in fact, now state governments, making it  
12     more difficult for the counties and local governments  
13     responsible for fiscal management. The cost of these  
14     programs are another burden on an already overburdened  
15     property tax population.

16                The Congress overwhelmingly passed in both  
17     houses and the President signed into law the Unfunded  
18     Mandate Act of 1995. In addition, the President  
19     recently signed the Unfunded Mandate Executive Orders  
20     12,866 and 12,875. The Department of Energy's private  
21     and local government fleet regulation is exactly what  
22     the new law is intended to prevent.

23                Making local governments and counties  
24     responsible for these types of alternative fuel  
25     programs should be reevaluated. It simply does not

1     make sense for Congress to have passed unfunded  
2     mandate legislation and at the same time be faced with  
3     DOE's proposal which is nothing more than a classic  
4     unfunded mandate, nor does it make sense to justify  
5     these programs either on the basis of national energy  
6     security or for environmental reasons.

7                 The National Council of Elected County  
8     Executives recommends that DOE not issue the final  
9     regulations, but rather suspend the program until such  
10    time as Congress can go back and review it.

11                The DOE should encourage Congress to go  
12    back and review the goals of the program and the  
13    prescriptive nature of the unfunded mandate.

14                Finally, we recommend that Congress  
15    recognize the budget constraints on all levels of  
16    government and businesses and, therefore, make the  
17    program voluntary for local governments and private  
18    fleets. By doing so, they will make the taxpayers of  
19    America grateful.

20                Ladies and gentlemen, the National Council  
21    of Elected County Executives stands ready to work in  
22    partnership with the Department of Energy to find some  
23    innovative solutions to achieve your goals.

24                I'll be pleased to answer any questions,  
25    if I'm capable.

1                   MR. GROSS: Thank you.

2                   MR. McARDLE: Yes. Actually I don't have  
3 a question, but I have just a response to you and  
4 several of the other speakers, and this is just kind  
5 of a plug for my office, the Office of Policy. It's  
6 been raised by several speakers, and I quote what you  
7 said. "DOE has yet to complete the study of the  
8 technical and economic feasibility of meeting the

9 EPO Act ten and 30 percent replacement fuel goals."

10                  There's a section in the Act, 502(b), that  
11 requires us to do a study. We've completed that  
12 study, and that's out for several months now,  
13 finalized, and that evaluated the goals given certain  
14 assumptions regarding vehicle stock and fuel  
15 availability.

16                  We are, however, following that up with a  
17 transitional analysis of given the 502(b) results, how  
18 do we get there from here and what are the costs  
19 involved. So I just want to make that clarifying  
20 statement because several speakers have brought it up,  
21 and I just wanted to make a plug for the Department  
22 and the Office of Policy.

23                  MR. DAVIS: Obviously the staff didn't get  
24 that part into the program.

25                  MR. McARDLE: Okay. That's just what I



1       wanted to bring up.

2                   MR. DAVIS: We will make sure we follow up  
3       on that aspect.

4                   Thank you very much.

5                   MR. GROSS: I've got --

6                   MR. DAVIS: Oh, sorry.

7                   MR. GROSS: I've got one question. You  
8       noted that 1,600 vehicles in your case isn't going to  
  
9       make a difference in your area in the big picture. I  
10      guess the question I have is if we don't start small  
11      somewhere with fleets, for example, where do we start,  
12      or are you suggesting that we don't start, that we  
  
13      just completely look in other directions, such as the  
14      mass transit approach and so forth?

15                  MR. DAVIS: It's kind of interesting. I  
  
16      suppose we're looking at which one goes first and how  
17      far down the line we go, and in fact, there are 88  
18      counties in the State of Ohio. About 80 percent of  
19      the population resides in ten of them. That leaves a  
  
20      huge portion of the state in an agricultural base,  
21      which is much concerned with alternative fuels, but  
22      also lack anywhere near the resources to develop that  
  
23      alternative fuels.

24                  Those counties are not being asked to pay  
25      for the development of this program, as an example,

1 and there is where especially under farm vehicles  
2 where the alternative fuel program is looked at as  
3 much more beneficial.

4 So somewhere in this shift of this  
5 process, we should be looking at this. Do we say that  
6 we shouldn't develop this? No, that's not what we're  
7 saying. We believe that anything down the road should  
8 be developed.

9 But also some of this change, some of this  
10 burden can be lifted if we can diversify our  
11 transportation system a little better.

12 Just very quickly, Akron, Ohio, was once  
13 known as the rubber capital of the world, and 20 years  
14 ago if somebody said that that was not a sustainable  
15 industry in Ohio in Akron, you'd have been laughed out  
16 of town. In a two and a half year period, we lost  
17 18,000 manufacturing jobs.

18 We learned a lesson. Diversity is what  
19 will keep the economy going in the future, not  
20 reliance on one system of transportation, and  
21 ultimately even with alternative fuels, we're still  
22 relying on one system of transportation: the highway  
23 system.

24 In Ohio, over a billion and a half dollars  
25 are being spent this year on the maintenance of roads,

1     and \$5 million is being spent on the maintenance of a  
2     rail system. This is not diversity through  
3     transportation. That diversity will not give us  
4     overall strength at the end.

5                 So I think that we have to be looking at  
6     that kind of a structure. We need it. We do need it.  
7     We need it all. We're willing to work through this  
8     program to achieve this, but from what we are working  
9     on from this level, our main goal at this point --  
10    I've got 50,000 commuters between Akron and Cleveland  
11    daily. I can ease that burden, improve air quality by  
12    putting them on a train. Putting more cars on the  
13    highway, even on compressed natural gas, is not going  
14    to save us that kind of money, and the overall cost  
15    would be much less.

16                So we're not saying don't do it. We're  
17    saying what's the priority here and how do we move  
18    this whole transportation system forward in a fashion  
19    that is, in effect, going to create a stronger  
20    economic base so that we can afford this.

21                MR. GROSS: Okay. Thank you very much,  
22    Mr. Davis.

23                MR. DAVIS: Thank you.

24                MR. GROSS: Our next speaker is John Lynn  
25    from the American Methanol Institute.

1                   MR. LYNN: Thank you.

2                   My name is John Lynn, and I am Vice  
3 President of the American Methanol Institute.

4                   The American Methanol Institute serves as  
5 a trade association for the methanol industry and  
6 works to promote the use of methanol as an alternative  
7 vehicle fuel and as a component of oxygenated and  
8 reformulated gasolines.

9                   Detroit's auto makers are understandably  
10 proud of the fact that it takes ten cars today to  
11 create the same amount of poison that one car alone  
12 produced 20 years ago. While this is probably true,  
13 there are other facts that need to be considered.

14                  In the 20 years between 1970 and 1990, the  
15 number of vehicle miles traveled doubled, from one  
16 trillion miles to two trillion miles. About one  
17 fourth of all Americans, 62 million people, live in  
18 areas that violate federal air standards. According  
19 to the American Lung Association, 12.1 million

20 children live in areas that exceeded the federal ozone  
21 standard, 877,000 of whom are diagnosed with asthma.

22                  Pollution from cars is the leading source  
23 of ozone precursors that form the smog that hangs over  
24 our cities on hot summer days.

25                  Before discussing how we can slow or

1 reverse the impact of those trends, let's first take  
2 a closer look at just how we improve the environmental  
3 performance of our cars today.

4 Car emissions are improved either by  
5 cleaning up the car or cleaning up the fuel it burns.

6 The addition of the catalytic converter and the  
7 removal of lead from gasoline made the largest  
8 contribution to reducing tailpipe emissions.

9 Following the energy shortage of the  
10 1970s, the country began a search for alternative  
11 fuels. Methanol quickly became the principal focus of  
12 attention. Made from domestic natural gas and a  
13 liquid fuel at ambient temperature and pressure,  
14 methanol was and still is an ideal alternative fuel.

15 The development of the flexible fuel  
16 vehicle that runs on M-85 gasoline or any combination  
17 of the two fuels in a single fuel tank was the ideal  
18 solution to the chicken and egg problem. M-85 is a  
19 blend of 85 percent methanol and 15 percent unleaded  
20 gasoline.

21 The strengths of methanol as an  
22 alternative fuel have never been evident than they are  
23 today. For 1997, Ford is selling their Taurus  
24 flexible fuel vehicle with a sticker price of \$345  
25 less than the conventional gasoline powered cars.

1     This is a watershed decision. The Ford Taurus FFV now  
2     comes with a cost incentive rather than an incremental  
3     cost, an incentive, I might add, provided by the  
4     private sector and not the federal government.

5             For a number of years, Ford has sold out  
6     its production run of Taurus FFVs. In the 1996 model  
7     year, Ford sold 5,300 Taurus FFVs and for 1997, the  
8     discount package is being offered on the first 12,000  
9     vehicles sold, and Ford has said it can produce an  
10    unlimited number of Taurus FFVs.

11            With the success of Taurus FFVs, we are  
12    actively working to encourage Ford and other auto  
13    makers to offer a broader range of methanol vehicles.  
14    We know the fleet owners want more methanol models to  
15    choose from.

16            In California, Xerox has about 70 methanol  
17    FFVs and would like to purchase methanol vans. We  
18    hope DOE will provide similar encouragement to Detroit  
19    to broaden the range of methanol vehicles offered to  
20    fleet purchasers and consumers.

21            A further piece of encouraging news  
22    recently was announced by Ashland Chemical. Ashland  
23    Chemical is the largest distributor of chemicals and  
24    plastics in North America. Ashland Chemical has made  
25    the decision to convert its corporate fleet in

1 California to exclusively methanol FFVs. Once again,  
2 this was a decision made by an entity in the private  
3 sector that had a long, hard look at the bottom line,  
4 the efficacy of these vehicles, the efficiency of the  
5 fuels.

6 With the panel's permission, I have a  
7 statement from Ashland Chemical that I'd like to  
8 include with my testimony at this point in the record.

9 In terms of fuel costs, methanol is priced  
10 in the range of mid-grade and below the cost of  
11 premium gasoline at the retail level in California.  
12 Consider the pump price of M-85 to be about a dime  
13 higher than regular gasoline.

14 I filled my Taurus FFV up yesterday  
15 morning over at the Sun station, South Capitol Street  
16 and M. I had \$1.31. Premium unleaded was \$1.42. So,  
17 once again, that's the real life facts of the pricing  
18 on the fuel and its availability.

19 To sum up, we have a mature technology in  
20 the flexible fuel vehicle. A 1997 model would cost  
21 less than its gasoline equivalent, inexpensive  
22 infrastructure to construct, and a modest incremental  
23 fuel cost.

24 For a fleet operator, even a modest  
25 incremental fuel cost, however, above regular gasoline

1     is still an important issue. To a large extent, this  
2     incremental cost is the result of a separate public  
3     policy gone awry.

4                 On an energy equivalent basis, the federal  
5     excise tax on a gallon of methanol is over 23 cents  
6     versus 18.4 cents per gallon of gasoline. Methanol is  
7     not the only fuel that suffers a tax disincentive.  
8     Propane and LNG also pay a tax penalty.

9                 What is needed is a rational tax policy  
10    for all natural gas based fuels. The Chairman of the  
11    House Ways and Means Committee, Mr. Archer, has  
12    indicated that he intends to appoint a task force to  
13    look at the taxes collected on fuels.

14                The reauthorization in the new Congress of  
15    ICE-T will undoubtedly offer an excellent opportunity  
16    to address what Chairman Archer has referred to as a  
17    patchwork quilt tax policy.

18                We welcome the opening of this debate.  
19    Clearly public policy that supports the use of

20    alternative fuels, on the one hand, should certainly  
21    not discourage their use on the other hand.

22                The use of methanol as an alternative fuel  
23    can provide this country with economic, environmental,  
24    and energy security benefits. For the fleet operator  
25    and the consumer, methanol is a friendly fuel. It is



1 safe and easy to use, with a proven track record of  
2 excellence.

3 Thank you very much.

4 MR. RODGERS: Just a quick question.  
5 Methanol is used for a lot of things other than just  
6 transportation, too, and I was wondering if you felt  
7 there was a parallel situation for methanol consumers  
8 as to propane consumers. Are they in the same boat?

9 Do they support or oppose methanol for use as a  
10 transportation fuel?

11 MR. LYNN: I'm not aware of any concern  
12 expressed by other consumers of methanol, and in fact,  
13 there are strong indications that as a greater use of  
14 methanol is accepted, suggested, and encouraged,  
15 whether it be in the flex fuel vehicle or in the  
16 automotive fuel market as a whole, our industry, the  
17 methanol industry, has the capability of matching that  
18 increased demand for capacity.

19 I think it's important to emphasize that  
20 right now 90 percent of the demand for methanol is  
21 being met by U.S. domestic production. An additional  
22 eight percent is being met by our trading partners in  
23 the Southern Hemisphere and Canada, while only two  
24 percent is being provided from Europe, Asia, and the  
25 Middle East.

1                   So if there is a tenfold increase in  
2 demand, that capacity is capable of being met right  
3 here at home and with our partners in the Northern  
4 Hemisphere.

5                   MR. McARDLE: Yes. Real quick. You  
6 mentioned a rational tax policy for transportation  
7 fuels, and you highlighted the differential between  
8 methanol and gasoline.

9                   MR. LYNN: Right.

10                  MR. McARDLE: Do you have any suggestions  
11 on that issue other than -- I mean, you mentioned  
12 Chairman Archer and putting together some people and  
13 working on that, but do you have any ideas yourself on  
14 where we should go there?

15                  MR. LYNN: Well, I think our first message  
16 to the Congress, to the tax committees, is that there  
17 should be encouragement, incentives for the  
18 alternative fuels, and that that should be done in  
19 furtherance of the national security objectives  
20 spelled out in EPAct, but that Congress should not  
21 pick winners and losers. There should be uniformity  
22 in the treatment of alternative fuels, and especially  
23 when it comes to natural gas based alternative fuels.

24                  There should not be that differential that  
25 currently exists.

1 MR. McARDLE: Thank you.

2 MR. GROSS: Any questions?

3 (No response.)

4 MR. GROSS: Thank you very much, Mr. Lynn.

5 MR. LYNN: This is the Ashland statement

6 for the record.

7 MR. GROSS: Thank you very much.

8 MR. LYNN: Thank you.

9 MR. GROSS: Our next speaker is Mr. Bill  
10 West, representing the Electric Transportation  
11 Coalition.

12 MR. WEST: Thank you, Mr. Gross and Mr.

13 Katz and other members of the panel.

14 My name is Bill West, and I'm here today  
15 speaking on behalf of the Electric Transportation  
16 Coalition.

17 The Coalition is a national, nonprofit  
18 organization dedicated to the advancement and use of  
19 electricity as a transportation fuel. Members of the  
20 Coalition include investor owned and cooperative and  
21 publicly owned electric utilities, automobile  
22 manufacturers, including automobile manufacturers who  
23 are introducing electric vehicles as early as late  
24 this year, component suppliers, technology development  
25 companies, and state and local governments.

1           The major activity of the Coalition is to  
2   encourage the development of federal policies that  
3   support and encourage the use of electric vehicles.  
4   The Coalition, let me say at this time, will also be  
5   submitting more detailed comments in writing before  
6   the November 5th deadline.

7           The Coalition members support the  
8   voluntary incentive measures that would be effective  
9   in achieving progress towards the fuel replacement  
10  goals as required by the Energy Policy Act of 1992.  
11  EPAAct commits the nation to a fundamental transition  
12  in the transportation sector with a change to  
13  nonpetroleum fuels which is vital to national security  
14  and economic security.

15          DOE should aggressively implement EPAAct  
16  and play a leadership role in supporting the  
17  development of a market for new, cleaner, and more  
18  efficient alternative fuel vehicles, including  
19  electric vehicles.

20          Congress recognized that broad national  
21  benefits are offered through the use of alternative  
22  fuel vehicles, including electric vehicles.  EVs offer  
23  the United States a very important means to reduce the  
24  country's dependence on foreign petroleum, increased  
25  fuel competition and fuel diversity and help reduce

1     air pollution and greenhouse gas emissions in our  
2     major urban areas.

3             According to DOE's own statistics, if  
4     approximately 20 percent of the total number of cars  
5     in this country were replaced with EVs and electric  
6     hybrid vehicles, nearly one million barrels of oil per  
7     day would be saved.

8             Also, significant air pollution reduction  
9     benefits are included, including reductions in  
10    greenhouse gas emissions, would be achieved by  
11    increased use of electric vehicles. This is mainly  
12    due to the fact that electric vehicles have no  
13    tailpipe emissions and are 90 percent less polluting  
14    than gasoline vehicles, even if power plant emissions  
15    at the national level are factored in.

16            In certain areas, such as Southern  
17    California where our electricity is generated  
18    primarily from natural gas and other sources of  
19    extremely clean fuel, the emission benefits are even  
20    more significant, in the range of 98 percent less  
21    polluting than the cleanest gasoline cars.

22            Further, as estimated by the World  
23    Resource Institute, EVs could reduce greenhouse  
24    emissions by up to 50 percent depending on the power  
25    plant mix in a given region.

1                   Given these benefits, what can DOE do?

2       The Coalition encourages DOE to implement a program  
3       that builds on market incentives already in place or  
4       that are being adopted to encourage private and public  
5       fleets to use electricity and other alternative fuels.

6       Creating a market for electric vehicles is critical  
7       for realizing the potential of these vehicles.

8                   Specific activities that DOE can undertake  
  
9       to support market incentives and voluntary programs  
10       that will promote the use of electric vehicles and  
11       other alternative vehicles include one of the four  
12       areas.

13                  First, DOE needs to continue to support  
14       the electric vehicle market launch framework. The  
15       electric vehicle market launch is a plan for the  
  
16       demonstration of up to 5,000 electric vehicles in as  
17       many as ten communities in the United States beginning  
18       in 1997. This initiative is designed to implement and  
19       build upon the ongoing EV tests and evaluation  
  
20       programs known as Electric Vehicle of America.

21                  The key element of the EV market launch  
22       framework is the preparation of a limited number of  
  
23       communities to receive electric vehicles in order for  
24       the communities to test and evaluate these vehicles,  
25       and an EV ready community can be defined as one in

1     which the necessary infrastructure is put in place to  
2     support electric vehicles. This infrastructure  
3     includes charging facilities, vehicle support  
4     services, building codes modifications, fire and  
5     safety code modifications, and training.

6             An integral part of this effort is for DOE  
7     to continue to support the development of  
8     infrastructure through its model city programs and  
9     other programs. One of the key elements required for  
10    the development of a long-term, sustainable market for  
11    electric vehicles in the U.S. is the development of  
12    the necessary infrastructure to support these  
13    vehicles.

14            For a community embrace electric vehicles,  
15    the stakeholders in that community, the electric  
16    utility industry, local government, and business, and  
17    the citizens, must develop and promote incentive  
18    programs that encourage early vehicle sales and  
19    investment in EV infrastructure systems.

20            During the last year DOE has partnered  
21    with the Department of Transportation, the Electric  
22    Transportation Coalition, and Electric Vehicle  
23    Association of America to bring workshops to a limited  
24    number of selected areas that provide guidance to  
25    communities on how to become EV ready. The Coalition

1     applauds this work and appreciates the fact that DOE  
2     supports the project in the past, and we encourage DOE  
3     to continue supporting this project in the future.

4             Thirdly, DOE must continue to support the  
5     development and early introduction of electric  
6     vehicles themselves.  EPA through alternative fuel  
7     providers' purchase requirements for state and  
8     alternative fuel providers' fleets in the conversion  
9     requirements for federal fleets shows that Congress  
10    intended for the government to help create the  
11    critical early market for electric vehicle technology.

12            The early market strategies will help to  
13    create an environment that will allow for increased  
14    volumes and, therefore, declining prices to enable the  
15    creation over time of a sustainable market for  
16    electric vehicles.  It is critical that the federal  
17    government, as well as the fuel providers and state  
18    governments, embrace the goals of EPA and step  
19    forward as early adopters.

20            President Clinton in 1993 signed an  
21    Executive Order 12,844.  That increased the federal  
22    government's commitment beyond the levels required  
23    under EPA.

24            However, the federal government continues  
25    to struggle to meet even the requirements of EPA.



1     The Coalition encourages DOE to help spur greater  
2     compliance among the federal agencies and to assist  
3     those agencies' efforts to successfully deploy  
4     electric vehicles, including supporting a second  
5     executive order to enforce the first executive order.

6             Lastly, many customers, whether fleet or  
7     individual buyers, will be reluctant to purchase  
8     electric vehicles due to their initial higher cost in  
9     the short term. Governments can help electric  
10    vehicles to overcome these market entry barriers  
11    through the provision of incentives that encourage the  
12    purchase and use of electric vehicles.

13            One way the federal government can help to  
14    overcome market entry barriers to electric vehicles is  
15    buying down the anticipated price premiums that  
16    consumers will be asked to pay for these new, clean,  
17    and efficient technologies.

18            For example, federal tax policy offers an  
19    important mechanism for providing limited, but  
20    critical support for the early commercialized electric  
21    -- light and heavy duty electric vehicles. Existing  
22    tax code made available through EPO Act provides a ten  
23    percent tax credit based on the purchase price of an  
24    electric vehicle up to 4,000. This tax credit, while  
25    beneficial, is inadequate if this technology is to

1     achieve a level playing field with other alternative  
2     fuels.

3                 The Coalition is supporting a number of  
4     modest additional incentives that will help to  
5     stimulate the EVE market. These recommendations are  
6     included in Senator Barbara Boxer's, a Democrat from  
7     California, Clean Fuels Vehicles of 1996 Senate bill  
8     1848, which was introduced this year.

9                 I will not go through the details of the  
10    bill, but we do support the bill and the provisions in  
11    it that will increase incentives for electric  
12    vehicles.

13                Let me say in conclusion the increased use  
14    of electric vehicles will clearly assist DOE in  
15    achieving its fuel replacement goals as required by  
16    EPAct. To increase the use of this new technology it  
17    is critical that policies and programs are put in  
18    place to create an environment that will support the  
19    early purchase and use of electric vehicles. Such  
20    policies include supporting the electric vehicle  
21    market launch framework, as well as supporting federal  
22    policies and programs, such as the legislation  
23    proposed by Senator Boxer, to stimulate the  
24    development of the electric vehicle market.

25                Lastly, programs must be put in place that

1 will promote deployment of infrastructure necessary to  
2 support electric vehicles and other alternative fuel  
3 vehicles.

4 That concludes my remarks.

5 MR. GROSS: Thank you very much.

6 Questions?

7 (No response.)

8 MR. GROSS: I guess I've got one question.

9 MR. WEST: Sure.

10 MR. GROSS: With respect to the federal  
11 fleet provisions in the executive order, other than  
12 trying to give it a push with another executive order,  
13 do you have any other specific ideas on how we could  
14 do what you suggest, which is really spur greater  
15 compliance across the federal government with the  
16 requirements of the Energy Policy Act for the federal  
17 fleet itself?

18 MR. WEST: Well, I know personally I would  
19 certainly endorse additional funding by DOE for  
20 purchase of vehicles and to offset some of the initial  
21 higher costs.

22 MR. GROSS: Maybe we have our own unfunded  
23 mandate, I guess, huh?

24 MR. WEST: Yeah.

25 (Laughter.)

1 MR. GROSS: Okay. Thank you very much.

2 MR. WEST: Okay. Thank you.

3 MR. GROSS: Our next speaker is Mr. Rick  
4 Tempchin of the Edison Electric Institute.

5 MR. TEMPCHIN: Good morning, gentlemen.

6 MR. GROSS: Good morning.

7 MR. TEMPCHIN: My name is Rick Tempchin.  
8 I'm Director of Electric Transportation at the Edison

9 Electric Institute.

10 MS. LEWIS: That's okay.

11 MR. TEMPCHIN: Oh, pardon me.

12 (Laughter.)

13 MR. TEMPCHIN: On behalf of EEI, an  
14 association of investor owned electric utilities, I  
15 appreciate the opportunity to speak with you today.

16 Also, as a member of the board of directors of the  
17 Electric Transportation Coalition, EEI supports the  
18 comments presented by Bill West of Southern Cal.  
19 Edison on behalf of ETC.

20 The electric utility industry has a dual  
21 perspective as both an advocate of alternative fuels,  
22 especially electric vehicles, and an industry subject  
23 to the first wave of federal alternative fuel vehicle  
24 regulatory requirements.

25 EEI has worked hard to facilitate

1 compliance with EPOAct by utilities with the use of  
2 electric vehicles, and these efforts are continuing.  
3 Utility EPOAct compliance and the requirements on  
4 federal and state fleets are part of the menu of  
5 policy directives that will help achieve the goals of  
6 the Energy Policy Act and the mission of DOE's Office  
7 of Transportation Technologies.

8           The electric utility industry shares the  
9 transportation goals of EPOAct and supports the mission  
10 of the Office of Transportation Technologies. We  
11 believe that the commercialization of electric  
12 vehicles is a key tool for accomplishing the mission.

13 We also believe that electric vehicles should be a  
14 major part of any alternative fuel vehicle program on  
15 the federal, state, and local levels because of their  
16 ability to meet multiple societal objectives.

17           Today I'd like to address DOE's concerns  
18 about a key barrier that the agency has identified in  
19 its strategic plan. The barrier is the so-called  
20 widespread skepticism about the environmental benefits  
21 of alternative fuels.

22           In actuality, there is growing public  
23 acceptance of the fact that electric vehicles are a  
24 desirable solution for reducing pollution, especially  
25 in nonattainment areas. The truth is that the oil

1 industry is waging a negative public relations  
2 campaign using inaccurate data and faulty analysis to  
3 keep this skepticism alive and to create the illusion  
4 that is widespread. Today I'd like to set the record  
5 straight.

6           Honest comparisons of the environmental  
7 impacts of various vehicle fuels require sophisticated  
8 analytical techniques, a thorough understanding of  
9 various fuel cycles, and accurate data inputs. Over  
10 the past several years researchers at the Argonne  
11 National Laboratory have developed the modeling  
12 capability and data to perform what should be the  
13 standard for these types of analyses. This work,  
14 described in the report "GREET 1.0--Transportation  
15 Fuel Cycles Model: Methodology and Use" was sponsored  
16 by the United States Department of Energy.

17           I will briefly highlight the results of  
18 the electric vehicle conclusions from the study which  
19 calculates life cycle emissions for assume 2000 model  
20 year cars, and by the way, it also has conclusions for  
21 all other alternative fuels.

22           The analysis includes power plant  
23 emissions and emissions from fuel production. The  
24 emission savings represent ranges which include the  
25 national average electric generation fuel mix and East

1 Coast and West Coast fuel mixes. These numbers are  
2 conservative in that the northwest region, which is  
3 mostly hydropower generation, is not included in the  
4 analysis on a regional basis.

5 For total energy use, electric vehicles  
6 reduce total energy use by 25 to 38 percent compared  
7 to gasoline vehicles. Thus, electric vehicles are  
8 clearly more energy efficient.

9 Regarding petroleum use, electric vehicles  
10 reduce petroleum use by 85 to 97 percent. This is due  
11 to the fact that power plants on average use petroleum  
12 products for less than four percent of their overall  
13 fuel mix.

14 Regarding volatile organic compound  
15 emissions, electric vehicles reduce emissions of VOCs  
16 by 98 to 100 percent. Thus, on a per mile basis,  
17 electric vehicles emit virtually no VOCs.

18 Regarding carbon monoxide emissions,  
19 electric vehicles reduce emissions of carbon monoxide  
20 by 99 to 100 percent. Thus, on a per mile basis,  
21 electric vehicles emit virtually no carbon monoxide.

22 Regarding nitrogen oxide emissions,  
23 electric vehicles reduce emissions of nitrogen oxides  
24 by 17 to 98 percent. The variation is due to regional  
25 differences in fuels used to generate electricity.

1                   Regarding sulfur dioxide emissions,  
2   electric vehicles do not increase net sulfur dioxide  
3   emissions from power plants because the Clean Air Act  
4   caps sulfur dioxide across all power plants. Thus,  
5   emissions of sulfur dioxide cannot increase due to  
6   electric vehicle use.

7                   Regarding greenhouse gas emissions,  
8   electric vehicles reduce greenhouse gas emissions,  
9   including carbon dioxide, methane, and nitrous oxide,  
10   by 14 to 46 percent compared to gasoline vehicles.  
11   Again, variations here are due to regional differences  
12   in power plant fuel mix.

13                  Additional environmental benefits of  
14   electric vehicles not addressed in the Argonne report  
15   include things like lead emissions. According to the  
16   Electric Power Research Institute, electric vehicles  
17   do not increase lead emissions. At least 85 percent  
18   of the lead used in battery manufacturing is secondary  
19   lead generation battery recycling, and 100 percent of  
20   lead from EV batteries is recycled. Regardless of the  
21   volume of lead used for electric vehicle batteries,  
22   modern controls on lead mining and smelting mean that  
23   battery use and environmental lead exposure are not  
24   directly correlated.

25                  Additionally, electric vehicles will



1 transition to non-lead batteries, such as the nickel  
2 metal hydride batteries which Toyota will offer in  
3 their RAV-4 electric vehicle next year.

4               Regarding other toxic chemicals, electric  
5 vehicles eliminate human exposure to toxic chemicals  
6 in gasoline. Exposure to cancer causing chemicals,  
7 such as benzene, butadiene and formaldehyde is  
8 eliminated.

9               Regarding water quality, electric vehicles  
10 eliminate motor oil and other automobile fuels from  
11 the waste stream. The EPA estimated 240 million  
12 gallons of motor oil per year as improperly dumped as  
13 eliminated, as well as untold millions of gallons of  
14 ethylene glycol based engine coolants.

15              Electric vehicles also do not contribute  
16 to leaking underground storage tanks, oil pipeline,  
17 and tanker leaks.

18              Regarding noise pollution, electric  
19 vehicles eliminate engine noise, which accounts for  
20 roughly half of the noise associated with internal  
21 combustion engine vehicles.

22              Now, many of these studies that  
23 underestimate the benefits of electric vehicles do so  
24 either because they fail to use fuel cycle analyses or  
25 they use old data. Also many studies simply make

1 apples and oranges comparisons of vehicles and fail to  
2 project market based vehicle comparisons based on  
3 actual vehicles that will be purchased in the near  
4 future.

5               These errors seriously skew report  
6 conclusions against electric vehicles.

7               To completely evaluate the energy and  
8 environmental effects of various transportation  
9 technologies, analyses must consider upstream  
10 environmental impacts, such as fuel production  
11 processes, as well as total emissions from vehicle  
12 operations. These excess or real world emissions have  
13 been carefully documented in this report, "Real World  
14 Emissions from Model Year 1993, 2000, and 2010  
15 Passenger Cars." This report was also partially  
16 funded by DOE, as well as the Department of  
17 Transportation.

18               Now, unfortunately many studies that  
19 compare electric vehicle emissions only consider  
20 emissions measured in regulatory or certification  
21 tests and fail to consider the following: fuel  
22 related emissions, off cycle emissions, and  
23 malfunction emissions.

24               Fuel related emissions include those  
25 generated through the following chain of processes:

1     primary energy production, feedstock transportation  
2     and storage, fuel production, and fuel transportation,  
3     storage, distribution, and fueling. Emissions occur  
4     from evaporation from the gas tank, engine and fuel  
5     line and fuel processing.

6                 Off cycle emissions include emissions  
7     associated with actual driving conditions which result  
8     in tailpipe emissions that are not measured during the  
9     federal test procedure. For example, certain driving  
10    conditions, such as frequent hard acceleration and  
11    long hill climbing, are not measured appropriately in  
12    the federal test procedure.

13                Malfunctioning vehicle emission controls  
14    allow excess emissions to spew from vehicles.  
15    Examples include catalyst damage and failure of the  
16    oxygen sensor which provides feedback for control of  
17    fuel-air ratio. These are the largest sources of  
18    excess vehicle emissions from gasoline powered  
19    vehicles.

20                Thus, according to the Environmental  
21    Protection Agency, pollution from tailpipes grows by  
22    an average of 25 percent every 10,000 miles,  
23    culminating in vehicles that are two to five and  
24    sometimes ten times dirtier than when they left the  
25    showroom.

1                   And there are other environmental issues  
2   as well. Another related issue is the fact that  
3   electric vehicles don't idle. During city driving,  
4   electric vehicles get the equivalent of almost 60  
5   miles per gallon compared to ten miles per gallon for  
6   a similar gasoline powered vehicle, according to  
7   research done by Argonne National Laboratory for DOE.  
8   Idling caused by congestion substantially reduces  
9   energy efficiency and increases tailpipe emissions in  
10  metropolitan areas.

11                  This is a key factor in emission analyses  
12  since market studies indicate that most electric  
13  vehicles will be used in cities.

14                  To conclude, many so-called studies on the  
15  environmental impacts of electric vehicles, such as  
16  those done by Carnegie-Mellon, have provided the  
17  public and policy makers with erroneous information.  
18  The authors are either naive or dishonest.

19                  I appreciate the Department of Energy's  
20  efforts to obtain unbiased and accurate information,  
21  but I urge you to continue to research. This type of  
22  information is critical to accomplishing DOE's mission  
23  and for achieving the goals of the Energy Policy Act  
24  and the Clean Air Act.

25                  This ends my formal comments. Thank you

1 for the opportunity, and I look forward to your  
2 questions.

3 MR. GROSS: Thank you.

4 MR. McARDLE: I have just one quick  
5 question, and it deals with the lead emission, and you  
6 mentioned the Carnegie-Mellon study that cited lead as  
7 an issue with electric vehicles. Now, in your  
8 statement here it says that 85 percent of the lead  
9 used in battery manufacturing is secondary lead  
10 generating new battery recycling.

11 Are you saying secondary lead is the same  
12 as recycled lead?

13 MR. TEMPCHIN: Right.

14 MR. McARDLE: I didn't know what you meant  
15 by that term "secondary."

16 MR. TEMPCHIN: Same thing.

17 MR. McARDLE: Okay, and you also go on to  
18 say 100 percent of the lead from EV batteries is  
19 recycled. So once a battery's life is done, that lead  
20 within the battery is also recycled?

21 MR. TEMPCHIN: That's correct, and the  
22 battery process and the recycling is designed into the  
23 vehicles themselves, very tightly controlled.

24 MR. McARDLE: Okay, and what is your view  
25 on that Carnegie-Mellon study? Because that got a lot

1 of press. Have you folks looked over that study?

2 MR. TEMPCHIN: Sure, sure. We've looked  
3 at it a lot, and I can put a detailed, you know, line-  
4 by-line critique in our written comments.

5 A lot of it is based on historic data  
6 projected into the future, going back 40-some years  
7 when there were, you know, very few regulations on  
8 lead processing. That's part of it. There's lots of  
9 problems with it. That's one of the things.

10 MR. McARDLE: And just real quick, you  
11 cited the GREEK model, but you also cited a second  
12 study which maybe I missed. What was that second  
13 study you mentioned again?

14 MR. TEMPCHIN: "Real World Emissions from  
15 Model Year 1993, 2000, and 2010, Passenger Cars."

16 MR. McARDLE: And the author of that  
17 study?

18 MR. TEMPCHIN: Lawrence-Berkeley Lab and  
19 Oak Ridge National Lab for DOE and DOT.

20 MR. McARDLE: Okay. Thank you.

21 MR. GROSS: Vivian?

22 MS. LEWIS: No.

23 MR. GROSS: Now, I've got something I want  
24 to pursue just for a minute. In the case of electric  
25 vehicles, it seems to me that, of course, you've got

1 an even higher mountain to climb in terms of the  
2 incremental cost in comparison to conventional  
3 vehicles, as well as compared to other alternative  
4 fuel vehicles.

5 As has been indicated in testimony  
6 throughout the morning, there is concern about how  
7 that's going to be dealt with on the part of  
8 consumers, such as fleet owners, and how in the world  
9 in terms of moving from where we're at to volume  
10 production we can get over that hurdle that exists  
11 particularly for electric vehicles.

12 And we can state that some of that  
13 incremental cost ought to be in public terms in terms  
14 of externalities of continued emissions, but what is  
15 the consumer going to do? You know, with these  
16 unfunded mandates our own fleet owners in the federal  
17 government have to deal with that, and we're trying to  
18 convince them every day that, gee, electric vehicles  
19 are a pretty good deal, and they say, "What?" and they  
20 look at the relative prices.

21 So I think we can relate to what fleet  
22 owners across the country are trying to deal with, and  
23 conceptually it's a great idea. Practically, what in  
24 the world are we going to do to make it more  
25 attractive for those buyers?

1                   MR. TEMPCHIN: Sure. The issue of cost,  
2   of course, you know, VCRs were, I guess, \$2,000 when  
3   they first came out and prices have come way down.  
4   So, you know, the first answer is new technology is  
5   always going to be more expensive, and there's no  
6   reason why electric vehicles can't be equivalent in  
7   price on a life cycle cost basis to internal  
8   combustion engine cars.

9                   But, you know, the other answer is the  
10  market issue. Right now cars are going to be leased  
11  in four cities in California and Arizona, and people  
12  are lining up to buy the cars. So the vehicle  
13  manufacturers are competing for an admitted small  
14  early market, and we're already seeing prices coming  
15  down, competitive forces driving both the battery  
16  technology and prices.

17                  Toyota's vehicle with an advanced battery  
18  is going to be priced to market at a price with an  
19  advanced battery that people thought wasn't possible  
20  a few months ago. So, you know, there are niche  
21  applications in the near term, and manufacturers are  
22  jockeying to fill these niche markets.

23                  Customers want these cars, and there is a  
24  market out there, and we believe that that will, you  
25  know, spur the market.



1           Regarding fleet vehicles, with the federal  
2   government, state and utility fleets as the start,  
3   utilities are going to be taking the lead to look for  
4   these applications in fleet applications. We're going  
5   to be purchasing vehicles, loaning them to customers  
6   or reselling them to customers, leasing them to  
7   customers, placing these vehicles in the appropriate  
8   applications, getting customers familiar with the  
9   applications.

10           You know, the problem is that the new  
11   technology, they're unfamiliar. There's a barrier  
12   there. So we're going to look to put vehicles out  
13   there and collect the information and figure out  
14   exactly the appropriate applications and find these  
15   niche markets working with the manufacturers.

16           So I guess the short answer is the  
17   market's working, and that will drive the process.

18           MR. GROSS: Thank you very much for your  
19   comments.

20           Our next speaker is Mr. Phillip Lampert of  
21   the National Ethanol Vehicle Coalition.

22           MR. LAMPERT: Good morning, gentlemen, Ms.  
23   Lewis. My pleasure to be here this morning.

24           My name is Phil Lampert. I represent  
25   National Ethanol Vehicle Coalition. I will

1     paraphrase, if you'll allow me to indulge, my prepared  
2     comments this morning, and we'll try to shorten this  
3     a little bit more.

4                 The National Ethanol Vehicle Coalition was  
5     created in 1993 by the National Corn Growers and the  
6     21 members of the Governors' Ethanol Coalition to  
7     increase the use of E-85 as a portion of the nation's  
8     alternative fuels. Our mission is to promote the use  
9     of ethanol as an alternative fuel, enhance  
10    agricultural profitability, advance environmental  
11    stewardship, and further national energy independence.

12                In advance of making very formal  
13    statements in regard to the ANOPR that we're  
14    discussing this morning, I'd like to make a couple of  
15    comments that's appropriate for the Department to  
16    note.

17                Quote, "the Department of Commerce has  
18    found that petroleum imports threaten to impair U.S.  
19    national security. I recommend that you confirm that  
20    finding," unquote. That's a letter dated December  
21    22nd, 1994, from former Commerce Secretary Ron Brown  
22    to the President.

23                Quote, "growing dependence on oil imports  
24    from insecure sources threatens energy security,  
25    undermines the U.S. economy, and costs American jobs.

1 Heavy dependence also contributes to the already  
2 massive U.S. trade deficit," end quote. That's a  
3 statement from Charles De Bono, President of the  
4 American Petroleum Institute in March of 1991.

5 Quote, "U.S. production of crude oil  
6 declined 3.1 percent during the first half of 1994,  
7 6.6 million barrels per day, the lowest level in 36  
8 years," end quote. That's another American Petroleum  
9 Institute press release, October 19th, 1994.

10 Quote, "U.S. oil output tumbled in the  
11 first half of 1996 as Alaska's production fell nearly  
12 eight percent. The result is another jump in the  
13 amount of imported petroleum used by Americans to 52  
14 percent from 49 percent of total consumption," end  
15 quote. American Petroleum Institute press release,  
16 July 17th, 1996.

17 We have four options in front of us today  
18 that we'd like to talk about in regard to petroleum  
19 and how to reduce consumption or to have more  
20 available. We can produce more in this nation. By  
21 doing so, we're going to clearly open up very  
22 environmentally sensitive tracts that some would  
23 support; others don't. So we can produce more in this  
24 nation.

25 We can import more petroleum. By

1 increasing our military operations and stature in the  
2 Middle East, I suppose we can continue to import more  
3 petroleum.

4 We can consume less. We can increase or  
5 further increase CAFE standards, an issue that a lot  
6 of people have debated recently, or we can promote the  
7 use of alternatives.

8 The National Ethanol Vehicle Coalition  
9 supports efforts to integrate all alternative fuels  
10 into the nation's transportation sector. Given the  
11 relatively small size of the fleets that the proposed  
12 rule we're discussing today would affect, the  
13 Coalition does not believe that this limited approach  
14 would be particularly effective in meeting either the  
15 ten percent or 30 percent goals of EPAct. In fact,  
16 requiring the use of alternative fuels in these  
17 subgroups would be more successful if done by  
18 incentives rather than mandatory requirements.

19 We believe that adequate supplies of  
20 domestic replacement fuels are currently available and  
21 technologically feasible in meeting the replacement  
22 goals of the Energy Policy Act. Therefore, the  
23 National Ethanol Vehicle Coalition does not believe  
24 that mandatory programs are the proper mechanism to  
25 carry out such fuel replacement goals.

1                   Clearly, market incentives enjoy  
2   widespread support in the manufacturing, service,  
3   transportation, and many other sectors of our economy.  
4   In fact, the petroleum industry itself has been a  
5   major beneficiary of such incentives through the use  
6   of direct federal tax subsidies, the percentage  
7   depletion allowance, expensing of exploration and  
8   development, enhanced recovery, deferral of income  
9   from controlled foreign corporations, foreign tax  
10   credits, accelerated depreciation, and others.

11                  The Ethanol Vehicle Coalition encourages  
12   the Department of Energy to consider incentives to  
13   further promote the use of all alternative fuels and  
14   alternative fuel vehicles. Should such incentives  
15   equal only 25 percent of the existing incentives  
16   available to our petroleum industry, we believe the  
17   alternative fuel marketplace will both grow and  
18   prosper.

19                  An added benefit will be reduction in the  
20   amount of imported petroleum, an increase in domestic  
21   energy security, a reduction in environmental  
22   pollutants, and increased domestic economic  
23   development.

24                  The Coalition believes that all  
25   alternative fuels have an opportunity to assist with

1 meeting the displacement goals of EPA Act, and each  
2 should be treated equally in regard to the  
3 establishment of market driven incentives.

4 In summary, the National Ethanol Vehicle  
5 Coalition applauds the objectives of both the  
6 Department of Energy and the sections of the Energy  
7 Policy Act. However, we encourage the Department to  
8 work with the various alternative fuels and develop an  
9 incentive package rather than adopt mandatory  
10 requirements.

11 Thank you.

12 MR. GROSS: Thank you.

13 Questions?

14 MR. RODGERS: Thank you for your comments.

15 I wondered if you could speak a little bit  
16 about what kind of incentives might be beneficial to  
17 a fuel such as ethanol, which I'm aware the vehicle  
18 doesn't cost that much, but the fuel sometimes in  
19 certain locations can cost more.

20 So what kind of incentives do we need to  
21 promote that kind of fuel?

22 MR. LAMPERT: We have chatted on that on  
23 several occasions recently in various conference calls  
24 and meetings of the Ethanol Coalition, the Governors'  
25 groups, et cetera. To be quite honest with you, we're

1 not prepared today to respond to that.

2                   What we would ask is that all of the  
3 alternative fuel groups be represented through  
4 possibly some umbrella ad hoc group that DOE could  
5 assist with establishing to develop that market driven  
6 incentive package. I don't know that we're ever going  
7 to achieve a level playing field that we hear so  
8 frequently about, but if all of the alternative fuels  
9 would come together to develop that, I think we would  
10 have a more successful opportunity.

11                   To answer your question directly, we're  
12 not prepared to make those comments this morning.

13                   MR. GROSS: Do you have an analysis which  
14 shows the details associated with the conclusion about  
15 the 25 percent figure that you used in your statement?

16 "Should such incentives equal only 25 percent of the  
17 existing incentives available to the petroleum  
18 industry, the alternative fuel marketplace will grow  
19 and prosper."

20                   MR. LAMPERT: You bet. We have a number  
21 of those things.

22                   MR. GROSS: All right.

23                   MR. LAMPERT: Most recently from the  
24 Institute of Local Self-Reliance. They have completed  
25 several reports. Citizen Action has completed several

1 reports in regard to the incentives that have been  
2 made available through one form or another to the  
3 petroleum industry. I'm certain that you have read  
4 those.

5 They total hundreds of billions of  
6 dollars. Twenty-five percent of that would be much  
7 more than we have available today.

8 MR. GROSS: Perhaps your answer will be  
9 the same as it was to Mr. Rodgers' question, but going  
10 back to the Natural Gas Vehicle Incentives Act, which  
11 is stated it's going to be reintroduced in the next  
12 Congress, if that were titled and the appropriate  
13 changes made to be an alternative fuel vehicle  
14 incentive act, do you have any views at this point in  
15 time with respect to its merits?

16 MR. LAMPERT: Frankly, I've not had an  
17 opportunity to review that legislation as it was  
18 introduced. I did see it some months ago as it was  
19 being formed.

20 Frankly, I think we continue to maintain  
21 this parochialism in the alternative fuel industry of  
22 fighting for each other's market share, which is not  
23 the market share that we should, in my opinion, be  
24 developing our strategic objectives for, that is, the  
25 fuel replacement of petroleum.



1                   MR. GROSS:  If there are no other  
2     questions, thank you very much, Mr. Lampert.

3                   MR. LAMPERT:  You're welcome.

4                   MR. GROSS:  Our next speaker is Mr. Steven  
5     Mello of Twin Rivers Technologies.

6                   MR. MELLO:  Good morning.  I apologize  
7     because you don't have copies of my presentation  
8     there.  It wasn't complete when I arrived.

9                   First, my name is Steven Mello, and I am  
10    Senior Vice President of Twin Rivers Technologies  
11    from Quincy, Massachusetts.

12                   Twin Rivers was formed for the purpose of  
13    manufacturing and marketing biodiesel fuels in order  
14    to meet growing policy concerns surrounding our  
15    nation's economic, energy, and environmental security.

16    Biodiesel, as you know, is primarily a transportation  
17    motor fuel domestically produced from renewable  
18    feedstocks, including plant, fan oils, lipid oils, and  
19    recycled fats, oils, and greases.

20                   Throughout 1994, Twin Rivers sought  
21    opportunities to construct a grassroots biodiesel  
22    production facility in the Northeast where nearly  
23    every BTU of energy is imported and air quality  
24    degradation is particular acute.  Economic development  
25    had all but come to a standstill, and many

1 manufacturing jobs had been lost pursuant to the 1992  
2 recession.

3               In early 1994, Proctor & Gamble, a Fortune  
4 100 company, announced the pending closure of its  
5 Quincy Point oleo chemical facility on Boston Harbor  
6 with a job loss in excess of 400 expected. This plant  
7 closing was hard felt within the local community as it  
8 seemed to permanently seal the fate of yet another  
9 northeastern city, the site of a once bustling  
10 industrial base in an adjacent coal handling facility  
11 and General Dynamics' shipyard had also been closed at  
12 the same site.

13               Twin Rivers sensed opportunity in this sad  
14 event however. Manufacturing biodiesel is quite  
15 similar to the soap and detergent intermediates that  
16 were produced at the facility. Twin Rivers eventually  
17 purchased it and began in the effort to commercialize  
18 biodiesel.

19               Since 1992, Twin Rivers has assisted in  
20 the effort to create a new basic industry. Biodiesel  
21 use in the United States has gone from ground zero  
22 prior to 1992 to demonstration projects in 1993, to a  
23 few permanent fleet users in 1994, to expanded  
24 applications in 1995, to several fleet wide users in  
25 1996. It is used by mass transit both for bus and

1 rail service, in the mining industry, in the marine  
2 industry, in transportation and farm equipment, in the  
3 construction industry, in the stationary diesel  
4 engines for back-up for peaking power.

5           It has grown from status that would yield  
6 no information whatsoever during a serious literature  
7 search to a major alternative fuel. It has gone from  
8 the curious subject of the avant garde film *The Fat of*  
9 *the Land* to the main transportation used by President  
10 Clinton and his staff at the Chicago convention.

11           While the trend is up, unfortunately for  
12 biodiesel and its proponents, it has not reached  
13 critical mass. It has now reached a point where it  
14 will either blossom or it will wither without fair  
15 treatment from the federal regulatory process.

16           At the outset, domestic commercialization  
17 of biodiesel had to overcome several obstacles.  
18 First, failed efforts at replacing diesel fuels with  
19 nonesterified vegetable oils need to be debugged.

20           Next, specifications for biodiesel quality  
21 and handling needed to be developed.

22           Third, an optimum blend ratio with diesel  
23 that maximized economics, energy security, and  
24 environmental benefit without eliminating biodiesel's  
25 primary advantage, the flexibility to be deployed in

1 existing vehicles with little or no modification,  
2 needed to be established.

3 Finally, users needed to be developed that  
4 would dare try biodiesel, and then if it met their  
5 strict standards for power and for performance, buy  
6 it.

7 Funded primarily by soybean groups and  
8 energized by the intense biodiesel activity in Europe,  
9 several parties have set out to seriously develop a  
10 new industry and prove this concept. It is worth  
11 repeating that the effort to commercialize biodiesel  
12 was primarily funded by the private sector and done so  
13 to meet the demands of a free market.

14 Biodiesel's proponents were not yet active  
15 in the legislative and regulatory process when the  
16 1990 Clean Air Act amendments or 1992 Energy Policy  
17 Act were enacted. Congressional edicts in future  
18 rulemaking provisions were well strategized to benefit  
19 the alternative fuels promoted by large, established  
20 industries, such as natural gas, ethanol, electric  
21 power, and methanol. Plans were made to fund basic  
22 research for these fuels, subsidize capitalization of  
23 new rolling stock and refueling equipment, adjusted  
24 environmental parameters to suit particular emissions  
25 vagaries, and favorably invest federal excise tax

1 levels to promote acceptance.

2 Not only was the nation going to encourage  
3 a move toward alternative transportation fuels. It  
4 was going to help finance it as well.

5 This was necessary as commercial  
6 penetration of alternate fuels sufficient to seriously  
7 reduce petroleum imports was beyond industry's desire  
8 or ability to capitalize. Now we are examining  
9 extending the incentives extended to these other  
10 alternative fuels initially.

11 A list of approved alternative fuels was  
12 developed that enabled those qualified to avail  
13 themselves of the above-mentioned benefits. Biodiesel  
14 in either neat or blended form was not on this list.  
15 Not only could biodiesel not be used for EPA's  
16 compliance, but the government would actually assist  
17 fleets that chose not to use it.

18 Failure to be included on this list has  
19 ever since hindered commercialization efforts by  
20 proponents of biodiesel in the agricultural,  
21 environmental, oleo chemical, rendering, research, and  
22 sustainable development communities.

23 Failure to include biodiesel or neat  
24 biodiesel as an approved alternative fuel has not only  
25 stymied the efforts of biodiesel proponents. Failure

1 to include such a convenient and easily implemented  
2 replacement fuel as biodiesel has inhibited DOE's  
3 efforts in displacing ten percent of petroleum used by  
4 2000.

5           While alternative fuel use has grown, the  
6 goal has not come close to being reached. Biodiesel  
7 would help achieve the goal. The marketplaces  
8 determine that 20 percent biodiesel, B20, is the  
9 alternate fuel of choice of many fleets. B20 has been  
10 certified for use by the United States Environmental  
11 Protection Agency for urban buses. U.S. DOT makes B20  
12 eligible for ICE-T and C-MAT funds. Commuter boats on  
13 Boston Harbor, through long research projects, have  
14 determined that B20 is the blend that works.

15           The State of New Hampshire, in  
16 promulgating a creative rule that combined Energy  
17 Policy Act requirements and Clean Air Act  
18 requirements, included B20 within that state's rule.

19           The turnpike commissions in Pennsylvania  
20 and Massachusetts use B20 fleet-wide. They ask,  
21 however, "How long can this continue if we can't get  
22 EPAct compliance?"

23           The service fleet at La Guardia Airport  
24 has established biodiesel-20 as the appropriate blend  
25 level, but they won't continue their program either if

1     they can't get E Pact compliance.

2                   Mass Port, Logan Airport, runs every  
3     vehicle on biodiesel-20. Again, no E Pact compliance.

4                   Importantly, all of these applications  
5     mentioned are fleet-wide installations. Because of  
  
6     the incremental cost of biodiesel and its ease of use,  
7     it actually creates greater use, greater alternative  
8     fuels use than the mandates of E Pact.

9                   Further, these products demonstrate  
10    voluntary usage of full price alternative fuels  
11    without subsidies. It's an alternative fuels program  
12    that people will actually figure out how to use rather  
  
13    than figure out how to get out of.

14                  Biodiesel is displacing imported petroleum  
15    throughout America, but these programs will begin to  
  
16    be abandoned without the additional benefit of E Pact  
17    compliance. Biodiesel doesn't need a DOE sponsored  
18    research program. It already has one. Biodiesel  
19    doesn't need federal tax credits to build an  
  
20    infrastructure. It already exists. Biodiesel doesn't  
21    need federal excise tax exemptions. Its economics are  
22    already favorable.

23                  Biodiesel needs only one thing: access to  
24    the list of approved alternative fuels. This access  
25    needs to be provided at the 20 percent blend level.

1     Given our client, it won't work at a higher level. A  
2     higher blend level would actually create less  
3     petroleum displacement. No one will use it at all.

4             To the contrary, at 20 percent fleets will  
5     over-comply, put in all diesel fleets in the program  
6     by utilizing their preexisting fueling infrastructure.

7             Until an appropriate biodiesel blend level  
8     sufficient for EPCa compliance is designated, this  
9     promising fuel with serious support from millions in  
10    the agricultural and environmental community will not  
11    grow. This easy to implement alternate fuel offering  
12    greater than average petroleum displacement, highly  
13    attractive environmental and renewability benefits in  
14    economic development in both urban and rural areas  
15    will be abandoned by EPCa target fleets.

16            Twin Rivers urges DOE to proceed with the  
17    B20 rulemaking process.

18            Thank you for the opportunity.

19            MR. GROSS: Thank you.

20            MR. McARDLE: Yes, I have one question  
21    regarding the cost of various blends, the blend  
22    levels. Like what are we looking at on the cost of B-  
23    100, for instance?

24            MR. MELLO: B-100 today is probably \$3.75  
25    a gallon. The B20 program that we use in Boston with



1 the META for urban buses tends to raise the cost of  
2 diesel fuel, depending on soybean prices, between 40  
3 and 60 cents a gallon.

4 MR. McARDLE: Okay, and the diesel you  
5 said was between 40, regular diesel?

6 MR. MELLO: Their fuel costs will increase  
7 between 40 and 60 cents a gallon.

8 MR. McARDLE: So their cost of fuel is 40  
9 to 60 cents a gallon or an increase? You're saying --

10 MR. MELLO: It will increase the cost.

11 MR. McARDLE: If they'll go to B20, for  
12 instance?

13 MR. MELLO: Right.

14 MR. McARDLE: And what is diesel running  
15 now? Like 50, 60 cents a gallon?

16 MR. MELLO: Diesel is 50 cents a gallon  
17 about two weeks ago, but it's 75 cents today headed  
18 north.

19 MR. McARDLE: Right. Okay. So you're  
20 saying the incremental cost for a fleet to use the B20  
21 is in the area of 40 to 80 cents a gallon?

22 MR. MELLO: To 60 cents.

23 MR. McARDLE: Okay. I'm sorry. Forty to  
24 60 cents a gallon, and you said many fleets are using  
25 it under these conditions already?

1                   MR. MELLO: We have several fleets now,  
2 but as I said, we're afraid we'll lose them.

3                   MR. McARDLE: Okay. Thank you.

4                   MR. MELLO: Thank you, sir.

5                   MR. GROSS: Other questions?

6                   (No response.)

7                   MR. GROSS: Thanks again.

8                   We're going to circle back to our earlier  
9 scheduled speaker, to Mr. John Huber of the Petroleum  
10 Marketers Association.

11                  MR. HUBER: Thank you for your indulgence  
12 and cycling back, and I'll return the favor by being  
13 as brief as possible.

14                  I represent the Petroleum Marketers  
15 Association of America. We are the predominant  
16 distributors of petroleum products, gasoline and  
17 diesel in America. However, my members also  
18 distribute propane, natural gas, methanol, and  
19 ethanol, and they are the predominant distributor of  
20 the ethanol product, too.

21                  We will resell any viable fuel for  
22 vehicles. That is our goal, and that's where my  
23 membership will continue to be.

24                  We are, however, deeply concerned with  
25 mandates in the marketplace. We believe that the

1 market does deliver the appropriate fuel at the  
2 appropriate time and at the appropriate price. That  
3 is what our customers always look for, is the best  
4 fuel that meets their needs at the best time.

5 We would first begin our testimony by  
6 noting that oil reserves do seem to be plentiful at  
7 this time. Supplies are plentiful throughout the  
8 world. There's more and more product becoming  
9 available internationally.

10 Now, that does not enhance domestic  
11 security, some would say, but we would disagree with  
12 that. We are in an international marketplace today  
13 for all fuels, natural gas, ethanol, methanol, diesel,  
14 gasoline. Those products that we buy are priced in  
15 Europe, as well as in New York. You can't avoid  
16 America in the international scene in the pricing of  
17 BTUs.

18 We would also note that the premise for  
19 this rulemaking is largely unfounded as a result of  
20 that. The vehicles that we need -- excuse me. We  
21 believe that as the fuels become more available and  
22 more efficient and become more environmentally sound,  
23 private fleets, as well as public fleets, will move to  
24 them. That's how we have always worked in this  
25 country.

1           The electric industry testified earlier  
2   that their fuel is almost emission-free. Well,  
3   contrary to that, we do know there's significant  
4   emissions coming from power plants, and we also wonder  
5   why many of the environmental agencies throughout the  
6   country are not forcing to buy electric vehicles as  
7   part of the environmental program. Why are we leaving  
8   it to the Department of Energy to fulfill an  
9   environmental goal when the local communities who are  
10   dealing on a daily basis with the environmental  
11   problems in their markets or their cities or  
12   communities are deferring that decision and using  
13   reformulated gasoline in many of those markets?

14           We also believe that the resale value of  
15   these fleets makes it questionable. We're talking  
16   about a market driven by the initial purchase, as well  
17   as the subsequent purchase, as well as the operating  
18   cost in between. You're talking a very small factor  
19   in the market of ten, 20 percent of private fleets.

20   Where will these fleets go in five, six, three years  
21   when they need to be recycled and sold out? We think  
22   that may add additional cost to those products.

23           We also are concerned with how these  
24   mandates affect marketers. As I indicated earlier, we  
25   are selling those alternative fuels. We are not

1     selling electricity yet.  However, many of my  
2     marketers are starting to look at becoming resellers  
3     of electricity in some of the markets.

4                 Now, when these people are competing, they  
5     do have to compete on a cost justified basis.  How do  
6     we stand when we compete with an electric utility that  
7     is rate basing each of the costs of electricity they  
8     manufacture, the fueling site that they might develop,  
9     and trying to spread that across a captive base of  
10    customers?  We are not able to do that, never will be,  
11    and I don't think my members even want that customer  
12    base.  They work on supplying the best fuel at the  
13    best time.

14                So we don't think that's a fair  
15    competitive situation that will develop as those  
16    mandates go farther and farther.

17                We believe that each of the companies that  
18    wants to supply those fuels can do it.  Our electrical  
19    industry indicated that the vehicles are becoming more  
20    prevalent, that the prices are better, that the fuel  
21    costs are better, the environmental costs are better.  
22    We believe that if that's the case, the market will  
23    recognize that.  We don't think that the U.S.  
24    government needs to force industries into that area  
25    and develop those fuels and force them to buy those

1 vehicles.

2                   They'll get there. It may not be  
3 immediately. It may not be in one year or five years  
4 or ten years. It may not even be the fuel that we  
5 think is the best one now. In my previous testimony  
6 -- the previous witness indicated that biodiesel plays  
7 a role. He indicated it wasn't around three years,  
8 five years, six years ago when all this legislation  
9 was enacted and now feels he's being pushed out of the  
10 market as a result of that legislation.

11                   Who's to say that another fuel won't  
12 develop in that time period, too? Should we prejudge  
13 the market and pick the fuel for the future or should  
14 we let the market do it?

15                   We're also concerned with the  
16 environmental costs of each of these fuels. Now,  
17 we've heard testimony on either side as to what is the  
18 best environmental fuel. Is it electricity? Is it  
19 natural gas? Is it methanol? Is it ethanol? Is it  
20 gasoline? And I think it's uncertain what is the best  
21 environmental fuel.

22                   Do we have good life cycle analysis of the  
23 energy demands of each fuel when it's manufactured,  
24 its transportation to market, its use in the market?  
25 Can we say with complete confidence that this fuel is

1 superior in one way or another?

2 The electric industry indicated that there  
3 was a study put out by Carnegie-Mellon recently  
4 regarding lead batteries. It would be interesting to  
5 review that. How much lead would end up in the  
6 marketplace? As I indicated in my testimony, the  
7 elimination of lead is probably the most significant  
8 environmental gain we have made in the last 30 years.

9 Is it something we need to risk at this point by  
10 putting lead back into the market in the volumes that  
11 we'd be talking about?

12 Finally, I think that we are moving into  
13 deregulation, as you know, deregulation of all the  
14 utilities, both gas and electric. That's going to  
15 have major implications for the cost of electricity in  
16 the market. It's going to have implications for the  
17 cost of natural gas in the market, and it's going to  
18 have an indirect effect on my people who sell  
19 petroleum in the market.

20 And the cost of those fuels will have a  
21 big impact on what fleet administrators and other  
22 customers want to buy. If electricity falls in price,  
23 certainly people are going to be more inclined to  
24 convert to it. Contrary, if it goes up in price for  
25 other reasons, people are going to go away from it.

1 Diesel and gasoline are going to be in the  
2 same marketplace, and their prices are going to move  
3 up and down, and people will be making intelligent  
4 choices based on where they think the market is going.  
5 We think those people should be allowed to make their  
6 intelligent choices.

7 I'm going to conclude my testimony at this  
8 point and would respond to any questions you might  
9 have.

10 MR. GROSS: Thank you very much.

11 MR. KATZ: I have a question based on your  
12 written testimony, not your oral testimony.

13 MR. HUBER: Yes, sir.

14 MR. KATZ: You mentioned the benefits of  
15 reformulated gas and how it may extend to the  
16 northeast states and the rest of the country. Given  
17 the benefits of reformulated gas in displacing  
18 petroleum, would your organization support a  
19 nationwide RFG program?

20 MR. HUBER: At this point we have no  
21 position on a nationwide RFG program. It's something  
22 I'll be discussing with my members in the future. We  
23 have traditionally favored voluntary options by the  
24 states in the reformulated gasoline program, but given  
25 the changes that are going on, I have not discussed it



1 fully with my membership.

2 MR. KATZ: Thank you.

3 MR. HUBER: You're welcome.

4 MR. GROSS: Thank you very much.

5 It turns out that we're running a little

6 bit ahead of time. So we've got time for one more

7 speaker, and with the indulgence of Mr. Anselmi of the

8 National Association of Fleet Administrators, who I

9 understand is just as willing to talk now as after

10 lunch, we'll go ahead and get a head start on this

11 afternoon.

12 MR. ANSELM: Thank you for the

13 opportunity to participate in this hearing. Thank you

14 also for letting me go before lunch as opposed to

15 right after lunch.

16 I am Jim Anselmi, the President of the

17 National Association of Fleet Administrators. NAFA is

18 the association of professional fleet managers. Our

19 2,000 members manage more than 2.7 million vehicles,

20 vans, medium and light duty trucks for corporations,

21 utilities and government agencies.

22 I am also the Director of Fleet Operations

23 for Lorillard Tobacco. That fleet is over 1,300

24 vehicles, including sedans and mini vans. These

25 vehicles are operated in every state.

1                   Prior to assuming this position at  
2   Lorillard in July, for ten years I was the manager of  
3   the Central Automotive Division for the Port Authority  
4   of New York and New Jersey. That fleet consisted of  
5   over 2,100 vehicles. There I was instrumental and  
6   responsible for establishing an alternative fuel fleet  
7   of 25 vehicles, worked closely with one utility to  
8   build a fueling station that the port authority  
9   operates, worked with another utility to build and  
10   open a fueling station, a public fueling station, and  
11   actively participated on several Clean Cities  
12   committees.

13                  As a fleet manager, I was trying to stay  
14   ahead of the curve even though at times I felt that I  
15   was being run over or running out of roadway or, more  
16   appropriately, running out of fuel or options.

17                  Fleet managers have been studying and  
18   testing alternative fuels for years. Alternative  
19   fuels are already in use in many U.S. and Canadian  
20   fleets. Because of the Energy Policy Act, the Clean  
21   Air Act, and other similar initiatives, many fleets  
22   are testing new vehicle technologies. Their  
23   experience is expanding available information base.

24                  NAFA and its members support the goals of  
25   the Energy Policy Act. We have actively cooperated

1 with DOE, serving on committees which have developed  
2 excellent informational materials. NAFA has been an  
3 active supporter of the DOE's fleet education program  
4 and has participated fully in the work of  
5 stakeholders' groups.

6 NAFA has welcomed DOE speakers at chapter  
7 meetings, and DOE has participated in NAFA's annual  
8 conference. NAFA has supported DOE's alternative  
9 fuels hotline and has referred fleet managers to this  
10 valuable resource.

11 We have reprinted DOE materials at our own  
12 expense and distributed them free to thousands of  
13 fleet managers. NAFA has documented fleet experience  
14 with AVFs in case studies and articles in NAFA  
15 publications.

16 Since the late 1980s, fleets have been  
17 faced with the challenge of how do you comply with the  
18 fleet mandates and the Clean Air Act and Energy Policy  
19 Act. Despite all warnings that mandates were not  
20 appropriate, legislators and regulators expected that  
21 mandates would create the critical mass of vehicles  
22 necessary to spur AVF production and infrastructure.

23 It was assumed that if fleets must acquire  
24 AVFs, the other elements would fall into place. As  
25 some have said, "Mandate them and they will come."

1           I want to, again, thank you for holding  
2       these hearings and providing the opportunity to fleet  
3       managers to present their experience, observations and  
4       recommendations on alternative fuels, the goals of the  
5       Act, and the role of mandates in meeting these goals.

6           With all the effort and resources expended  
7       over the last several years, it is appropriate that  
8       these hearings assess the progress made and the  
9       challenges that remain.

10           During the hearings in Dallas and  
11       Sacramento you received valuable information from  
12       professional fleet managers from both corporate and  
13       government fleets. Many others will testify here  
14       today or send you written comments. They have shared  
15       with you information based on experience rather than  
16       speculation.

17           The messages you have heard is economic  
18       and operational barriers have yet to be overcome. The  
19       incremental cost of AVFs is high. Availability is  
20       limited, and infrastructure is lacking. I hate to say  
21       these are the very same obstacles that fleet managers  
22       warned of in early 1988.

23           Despite the optimism of many, including  
24       the Department of Energy, AVFs are still too costly,  
25       not available in sufficient model lines, lack the

1     requisite infrastructure, and do not meet the  
2     operating needs of most fleets. These obstacles which  
3     if not resolved will result in the failure to meet the  
4     goals of EPAct.

5             You have heard not just from fleet  
6     managers. Others have also brought you this message.  
7     Alternative fuel suppliers and others have repeated  
8     our concerns about the economics of alternative fuels.

9     In Dallas, the spokesperson for the Natural Gas  
10    Vehicle Coalition said, and I'm quoting, "We are still  
11    not making money, and I think this is true of our  
12    entire industry. Why? Because we cannot get the  
13    critical mass level that is essential to make this a  
14    commercial business."

15            I continue. "The biggest barrier is  
16    incremental cost difference. Whether we convert  
17    vehicles to run on alternative fuel or whether we buy  
18    them from the OEM, there is substantial cost  
19    difference that precludes almost any economic case  
20    other than the very high fuel use applications. This  
21    cost difference leads to an absence of sufficient  
22    demand to support mass production."

23            Despite support for alternative fuels,  
24    business decisions have to be made. A fleet owner  
25    must decide to acquire alternative fuel vehicles by

1     answering two questions.

2                     One, can I obtain an alternative fuel  
3     vehicle that will meet my needs?

4                     Two, can I obtain the fuel on which this  
5     vehicle will operate?

6                     Unless the answer to both questions is an  
7     unqualified yes, a fleet owner cannot be expected to  
8     purchase AFVs.

9                     A fuel supplier must ask if the demand is  
10    there in gallon equivalents to warrant investment in  
11    fueling facilities, and vehicle manufacturers rightly  
12    must ask if today's fleets and tomorrow's public will  
13    make the investment in AVFs.

14                    For most fleets the answer is no because  
15    of vehicle cost, vehicle availability, infrastructure,  
16    and driving range. The answer is no for many fuel  
17    suppliers, as evidenced by Amoco's reported decision  
18    to close its CNG fueling facilities after significant  
19    effort and time and money, and the answer is no for  
20    vehicle manufacturers as evidenced by only one  
21    domestic auto manufacturer currently offering AVFs.

22                    Does this mean the goals of the Energy  
23    Policy Act of reducing dependence on petroleum by ten  
24    percent and then 30 percent cannot be met? The answer  
25    is also no. The goals may be attainable, but mandates

1 are not the silver bullet that some expected.

2           The history of fleet mandates shows that  
3 they are simply not effective. The Clean Air Act  
4 amendments of 1990 mandated fleets in 22 metropolitan  
5 areas to begin purchase of clean fuel vehicles in  
  
6 1997. The Energy Policy Act of 1992 required the  
7 federal fleet to begin AVF purchases in 1993, followed  
8 by state and fuel provider mandates beginning this  
9 year.

10           What has been the result of these  
11 mandates? Only six states remain a part of the Clean  
12 Air Act mandates, and of those, two, Illinois and  
  
13 Wisconsin, have petitioned the EPA for delay because  
14 clean fuel vehicles will not be available.

15           As for the Energy Policy Act, the federal  
  
16 fleet has failed to meet the statutory mandate every  
17 year, and the state and fuel provider fleets are  
18 noticeably quiet.

19           The stimulus that these mandates have  
  
20 provided have resulted in one domestic manufacturer  
21 currently offering AVFs. No EPA certified  
22 conversions, virtually no alcohol fuel infrastructure,  
  
23 and approved decision by the natural gas industry to  
24 concentrate on high fuel use for essentially fueled  
25 vehicles.

1                   What we need is for the Department of  
2   Energy to exercise its leadership in alternative fuels  
3   as it has done so ably in other aspects of the energy  
4   policy.

5                   Congress charged the Department with the  
6   mission of reducing dependence on petroleum based  
7   fuels. They gave the Department the discretion to  
8   decide whether mandated fleet purchases had a role in  
9   that mission.

10                  The time has come to recognize that  
11   mandates are neither the goal nor the objective of a  
12   functional energy policy. Obviously the Department  
13   will not meet the December 15th, 1996, deadline for  
14   the early mandates. The question is: what will be  
15   the Department's next step?

16                  I earnestly hope that the Department uses  
17   the information it has received during these  
18   rulemakings and uses its leadership to develop  
19   innovative approaches to promote AVF technology.

20                  The record being created in this  
21   rulemaking clearly shows that there are obstacles to  
22   overcome. These are obstacles that the Department  
23   should not dismiss. For example, during the  
24   Sacramento hearing, DOE officials questioned the  
25   validity of the concern that the incremental cost of



1 AVFs was an obstacle. DOE officials suggested that if  
2 fleets chose flexible fueled vehicles, FFVs,  
3 incremental costs would no longer be an issue.

4 What the DOE officials did not state for  
5 the record was today there is only one FFV being  
6 produced, Ford Taurus. The lower energy content of  
7 alcohol fuel requires more frequent refueling.

8 Three, the price of alcohol fuels is  
9 higher than gasoline.

10 Four, that there are global warming  
11 problems with alcohol fuels.

12 Five, that FFVs will only contribute to  
13 meeting the EPAct goals if an alternative fuel is  
14 used.

15 And, six, the infrastructure for  
16 alternative fuels is nonexistent, for alcohol fuels is  
17 nonexistent.

18 At the Dallas hearings, the representative  
19 of Texas General Land Office made the statement that  
20 if this process -- and I'm quoting again -- "is geared  
21 to attempting to overcome these extraordinary barriers  
22 in order to ultimately create a fleet mandate, the  
23 result will be doomed to failure and will not be worth  
24 the effort required. If, however, the process is  
25 geared to determining other avenues for promoting

1 alternative fuel use and looking for other  
2 opportunities to move that agenda forward, then I can  
3 believe it can be prove to be useful."  
4 We fleet managers agree with the  
5 statement. We urge the Department of Energy not to  
6 impose mandates, but to foster a voluntary partnership  
7 with three objectives:

8 Develop economic and other incentives to  
9 overcome other barriers, such as the vehicle cost and  
10 infrastructure and range.

11 Two, move the AVF technology beyond the  
12 experimental stage to where advanced technologies are  
13 feasible and available, such as advanced battery  
14 technology for EVs.

15 And, three, support a market based rather  
16 than command and control approach to meeting the goals  
17 of EPAct.

18 Thank you for the opportunity, and I'll  
19 entertain any of your questions.

20 MR. GROSS: Thank you, Mr. Anselmi.

21 Do any of the panel have questions?

22 MR. RODGERS: One question, and, Jim,  
23 thank you for your comments.

24 I guess though I'm a little confused with  
25 some of the comments coming specifically from the

1 fleet leasing organizations this morning, and which I  
2 really appreciate the comments coming from the  
3 expertise, and there's a lot of information there  
4 which I need to study, but, on the one hand, it sounds  
5 like it would be folks are saying that to comply would  
6 be extremely costly and a burden on a local county  
7 government, for example.

8           And then, on the other hand, I hear from  
9 you in your testimony that the state of alternative  
10 fuel vehicle availability and fuel availability is so  
11 poor that it would not make any business sense -- it  
12 would not meet, I believe you said, the needs of any  
13 fleet -- and, in fact, in the Energy Policy Act if  
14 alternate fuel vehicles don't meet the, quote, normal  
15 requirements and practices of the principal business  
16 of the fleet owner, then you're off the hook.

17           So I guess I'm a little confused. It  
18 sounds like from your testimony -- this is not my  
19 opinion -- but that if we implemented a fleet mandate  
20 today, you wouldn't be covered. Why the contradiction  
21 in what I'm hearing?

22           MR. ANSELM: Sorry, David, if you're  
23 hearing a contradiction. I don't think that that was  
24 intended either by my testimony or AALA's testimony.  
25 What we as a fleet organization and what I personally

1 as a fleet manager have seen in reading the law, of  
2 course, which I'm interpreting with your assistance,  
3 is that if vehicles are available, I would be mandated  
4 to buy them. There is nothing that says that I didn't  
5 have to pay 4,000 or a premium cost for that.

6 I think in my testimony and what we've  
7 heard before was that it's a business decision. It's  
8 very, very difficult for me to go to either my ex-  
9 executive director or my new CFO and say, "I've got  
10 this great idea. I'm going to spend \$5,000 more.  
11 Your drivers, our salesmen, can't go as far. They've  
12 got to spend less time in their sales calls and more  
13 time hunting out fuel."

14 I think that that's what we're saying  
15 here, is that the mandates would be forcing us because  
16 they save if the vehicles are available. What we're  
17 asking for is incentives or, more appropriately, maybe  
18 just to remove some of the disincentives from the  
19 mandates and work with the manufacturers and develop  
20 an infrastructure.

21 We talked about alcohol fuels. Great, but  
22 there's no infrastructure there. In my new position,  
23 it was one of the first questions I asked. What type  
24 of alternative fuel program do we have?

25 We do have an alcohol fuel car, an FFV, in

1 California. It has not seen one gallon of an alcohol  
2 fuel. It just wasn't available in that area. It's a  
3 real problem to fleet managers, and I've got to tell  
4 you I've seen it from both sides. I've seen it from  
5 the government's side, where the mandates are coming.  
  
6 I've now seen it from the corporate side where the  
7 vehicles are going to be more expensive and not really  
8 meet the operational needs of that corporation.

9 I hope I've answered your question, and I  
10 hope I've added to lessen the confusion, but I don't  
11 think that the fleet managers as an organization or  
12 individually have changed since the 1980s in their  
13 position here.

14 You know, if it makes economic sense and  
15 they can justify it as a business decision, they are  
16 more than happy to go forward with this new idea and  
17 are not opposed to the change.

18 MR. RODGERS: All right. I thank you for  
19 attempting to clarify my confusion, but I have to say  
20 it's still a little confusing for me because if the  
21 alternative fuel -- again I quote -- "if the  
22 alternative fuels that meet the normal requirements  
23 and practices of the principal business of the fleet  
24 owner are not available in the area in which the  
25 vehicles are to be operated," that is one of the

1 exemptions.

2                   So if alcohol fuels are not available,  
3 then you're off the hook.

4                   MR. ANSELM: Can I ask you a question?

5 What would you define as the area? I tried to  
6 interpret that. I put a vehicle into Kennedy Airport  
7 operation with a fueling station operated nine miles  
8 away. I have yet to have one or they have yet to have  
9 one gallon of the compressed natural gas used because  
10 it was nine miles away and inconvenient.

11                   Would you tell me that that was not in the  
12 area?

13                   MR. RODGERS: Well, so maybe that's an  
14 area where we need to continue to look.

15                   MR. ANSELM: I think there needs to be  
16 some more definition to a company that can guide the  
17 fleet manager and the industry.

18                   MR. RODGERS: Okay. Thanks a lot.

19                   MR. GROSS: Any other questions?

20                   MS. LEWIS: No.

21                   MR. GROSS: Thanks again.

22                   MR. ANSELM: Thank you.

23                   MR. GROSS: We have reached the point in  
24 time for a lunch break, and I know that I and  
25 presumably other members of the panel are ready for

1     that.

2                     David, did you have an announcement or  
3     some suggestion to make?

4                     MR. RODGERS: I just wanted to go over a  
5     little bit some of the procedures. When you came in  
6     here today, you got one of these little visitor's  
7     badges, and that's your ticket as long as you're in  
8     the building, and what you can do though during the  
9     lunch break is when you go out either the main  
10    entrance or to the cafeteria, you'll trade this in for  
11    a little temporary card, and then they'll give it back  
12    to you.

13                    So don't lose this if you do want to come  
14    back into the building or you're going to be gone for  
15    maybe two hours or three hours. That's fine, too.

16    You'll just have to check back in again through the  
17    normal process rather than the expedited process we  
18    have.

19                    For your information, the cafeteria is  
20    located on the first floor, but it's in a building  
21    that's across the street. So the easiest way to get  
22    to it is to go down one floor to the ground floor,  
23    follow the rest of the crowd of people and walk across  
24    on the ground floor and then up the escalators to the  
25    cafeteria.

1                   MR. GROSS:  Actually there are a lot of  
2   them that will be coming back from lunch right now.

3                   MR. RODGERS:  So it will be empty, ready  
4   for you.

5                   MR. KATZ:  There's two stories of  
6   escalators, by the way.

7                   MR. RODGERS:  There are two pay phones  
8   right outside the office here if you need to use the  
9   phones, and we'll look forward to seeing you after  
10  lunch.

11                  MR. GROSS:  Okay.  We'll resume at 1:30.

12                  (Whereupon, at 12:40 p.m., the meeting was  
13   recessed for lunch, to reconvene at 1:30 p.m., the  
14   same day.)

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1 A-F-T-E-R-N-O-O-N S-E-S-S-I-O-N

2 (1:32 p.m.)

3 MR. GROSS: Good afternoon. Consistent  
4 with the federal budget reduction, why, we'll dock the  
5 pay of the panel members who have not arrived, but  
6 we're going to continue.

7 (Laughter.)

8 MR. GROSS: Our first speaker of the  
9 afternoon is Diane Shea, National Association of  
10 Counties.

11 MS. SHEA: Good afternoon.

12 Counties are strongly supportive of  
13 efforts toward increasing alternative fueled vehicle  
14 use throughout America. The National Association of  
15 Counties, the only national organization representing  
16 county governments in the United States, adopted a  
17 resolution this summer encouraging counties to  
18 purchase alternative fueled vehicles and pledging to  
19 promote the increased use of AVFs by private  
20 businesses and all levels of government. You should  
21 have a copy of that resolution attached to our  
22 testimony.

23 We certainly share the goals of the  
24 Department of Energy, as well as the Energy Policy  
25 Act, to reduce this country's dependence on foreign

1 oil.

2           Our progress to date has already been  
3 pretty impressive, we think. While we know that the  
4 Energy Policy Act of 1992 mandates on federal  
5 government fleets have resulted in the addition of  
6 about 20,000 AVFs to federal fleets since 1993.  
7 During that same time, local governments voluntarily  
8 participating in the Clean Cities Program have brought  
9 over 32,000 AVFs onto the nation's roadways. Those  
10 numbers, or DOE's numbers, were for vehicles in use at  
11 the time that these local governments joined the Clean  
12 Cities Program. Undoubtedly since that time the  
13 numbers have risen.

14           In each location, these local governments  
15 have pledged to aggressive increase AVF acquisition in  
16 their fleets in the next several years. For example,  
17 Broward County, and you've heard some examples already  
18 today, but I'll give you a couple more; in Broward  
19 County in Florida, as a partner in the Florida Gold  
20 Coast Clean Cities Program, have committed to  
21 increasing the number of AVFs from a current 75  
22 vehicles to 20 percent of their entire fleet, not  
23 future purchases, but at the end they want 20 percent  
24 of their entire fleet to be AVFs.

25           Counties that aren't even part of the

1     Clean Cities Program, like Hennepin County, Minnesota,  
2     have also made a firm commitment to AVF acquisition  
3     and use. For example, even in the absence of any  
4     federal or state mandates, Hennepin County has  
5     appropriated its own local funds to purchase a total  
6     of our new intermediate sedan size vehicles for FY  
7     '97. Those are all the sedans they're going to buy in  
8     '97, and every one of them is an AVF.

9                 They're going to be the E-85 powered AVFs  
10     burning the ethanol based fuel that Hennepin County  
11     believes is its best choice in AVF technology.

12                Hennepin would have purchased more E-85  
13     AVFs in the truck category and other categories in its  
14     capital equipment plan for next year if auto  
15     manufacturers had been producing them, but they  
16     weren't, and so they didn't make those purchases for  
17     next year.

18                But many other counties like Hennepin and  
19     other local governments across the country are making  
20     the move toward AVFs, choosing the pace of acquisition  
21     and the variety of technology that is best for their  
22     local circumstances.

23                This voluntary effort that is underway in  
24     counties and cities across the country, we believe,  
25     would be undermined by a new federal mandate requiring

1 specific percentages of AVF purchases by local  
2 government. Under the proposed rule that's being  
3 discussed today, 125 MSAs or CMSAs would be  
4 potentially subject to a federal mandate on AVF  
5 acquisition. Four hundred ninety-seven counties by  
6 our calculation are within these MSAs and CMSAs.

7 We believe that imposing a flat percentage  
8 purchase requirement on these counties is unwise and  
9 unnecessary. It's unwise because, as you've already  
10 heard today, it's an unfunded federal mandate that  
11 imposes new costs on local government without funds to  
12 cover those costs, without federal funds or state  
13 funds to cover those costs.

14 As you also have heard, AVFs, even where  
15 they are available, are generally more expensive than  
16 conventional vehicles. For example, the one that the  
17 folks in Hennepin County have purchased, the Ford 1997  
18 Crown Victoria police vehicle, is only available in  
19 the natural gas version and costs over \$3,200 more per  
20 vehicle than the same car powered by gasoline.

21 We can't really justify paying these  
22 additional costs, particularly where the state  
23 procurement laws currently require the county to take  
24 the lowest bid for equipment purchases. In many  
25 states that is a procurement law that local

1 governments have to comply with, and if you accept a  
2 more expensive bid on a vehicle, you could, in fact,  
3 be in violation of state law. So that's something I  
4 hope you'll take into consideration.

5               For a county like Hennepin County, a  
6 federal mandate would actually have a destructive  
7 effect on their voluntary program by imposing a "one  
8 size fits all" straightjacket on what they do. To  
9 meet the purchasing quotas on the schedule that's  
10 tentatively proposed in the rule, the country would be  
11 forced to purchase vehicles they believe from non-E-85  
12 technologies that they neither want nor have the  
13 resources to operate and maintain.

14               Further, the availability of refueling  
15 facilities for AVF is limited throughout the country,  
16 as you've heard. The market for those sites is still  
17 in its infancy, and we've yet to see any definitive  
18 evidence that the infrastructure for fueling AVFs is  
19 likely to be put in service by the private sector in  
20 the next few years.

21               It's wrong, we believe, to mandate a  
22 county to have to establish a separate refueling  
23 facility solely for its own AVFs. Such requirement  
24 would impose unwarranted financial burdens.

25               Just as significantly though, a federal

1 mandate would take away from local governments the  
2 ability to determine the pace of their vehicle  
3 acquisition program. Capital equipment purchases are  
4 planned by some counties many years in advance through  
5 their capital budget plan. Some of those plans may  
6 include purchases of AVFs, but on a schedule and under  
7 arrangements that are tailored to the particular  
8 county's budget and needs.

9 Mandating a rigid percentage of purchases  
10 each year will bring disarray to those counties with  
11 equipment purchase plans and basically engender a  
12 great deal of hostility toward the Department.

13 In addition to being unwise, we think a  
14 proposed federal mandate is also unnecessary to  
15 accomplish the goals of the Act. As we noted, DOE's  
16 Clean Cities Program is reaching many communities  
17 already. Twenty-seven percent of the MSAs or CMSAs  
18 subject to the proposed rule already have at least one  
19 Clean Cities participant. As many as 56 additional  
20 local government coalitions, many including one or  
21 more counties, are already voluntarily moving toward  
22 a Clean Cities designation.

23 And as Hennepin County showed, even MSAs  
24 which don't include a designated Clean City or  
25 prospective Clean City contain progressive local

1 governments which should be encouraged rather than  
2 coerced to consider purchasing AVFs.

3           It seems clear to us local governments are  
4 already beginning to pursue the goals of the Act.  
5 Mandates are not called for here and would only  
6 unnecessarily duplicate what are now impressive, yet  
7 voluntary initiatives.

8           It should be noted also that the proposed  
9 rule wouldn't apply to the thousands of cities and  
10 counties that are outside of the larger MSAs. Yet  
11 even in these suburban and rural areas, there are  
12 numerous communities that have AVF policies and are  
13 gradually moving toward augmenting their small fleets  
14 with AVFs.

15           We're aware of at least ten very rural  
16 counties that have active AVF programs under the Clean  
17 Cities Program. If the Department wants to see real  
18 progress in AVF purchasing, refueling facilities, and  
19 increased production throughout the entire country, we  
20 believe that resources should be directed toward  
21 continuing and expanding a Clean Cities or Clean  
22 Cities-like grassroots approach.

23           Encouragement and partnership like the  
24 Clean Cities Program appears to be making a real  
25 difference in helping local governments with the

1 transition to AVFs. We think the program is valuable,  
2 has great potential for growth, but we have some  
3 suggestions for improvement.

4 The current program, we think, has a less  
5 than inclusive focus. You may or may not be aware  
6 that some of my members often take some offense at  
7 being categorized as cities in a federal program.  
8 Because of that, one of the reasons my organization  
9 hasn't actively put our energy into endorsing and  
10 promoting the program is because of its title, "Clean  
11 Cities."

12 Now, I don't think the DOE would expect  
13 cities to enthusiastically embrace a program called  
14 "Clean Counties." Nevertheless, even without this  
15 explicit recognition that the program invites counties  
16 to participate, 55 counties are stakeholders among the  
17 coalitions that make up the 52 Clean Cities  
18 designation to date.

19 We would encourage the Department to adopt  
20 a new title of this program that makes it clear that  
21 counties, as well as cities, are invited to take part  
22 in the program. We think if the program had broader  
23 scope aimed at wider participation by counties and  
24 other local governments, we could produce the  
25 nationwide objective that is one of the goals of the



1     Energy Policy Act.

2                     Voluntary achievements and progress by  
3     local governments to date under the Clean Cities  
4     Program and local programs on their own, along with  
5     projections for the future, point to the

6     inappropriateness, we believe, of forcing local  
7     governments to do what they already have shown that  
8     they are willing to do for themselves and for the

9     nation. A mandate is just the wrong way to go.

10                    We at NACO offer to continue to work with  
11     our counties and DOE, as well as the private sector,  
12     to help find creative alternatives to a federal  
  
13     mandate, while at the same time reduce our dependence  
14     on foreign oil and improve air quality.

15                    And we look forward to the assistance of  
  
16     DOE as technical experts, information managers, et  
17     cetera, to help us with our goal. We believe that we  
18     should work in partnership together. The partnership  
19     though can't be productive if the Department begins by  
  
20     imposing an unfunded federal mandate on counties.

21                    We hope that you will determine that  
22     that's unnecessary to meet the goals of the Act, and  
  
23     that you will utilize the experience and expertise of  
24     our county officials to accomplish all of our common  
25     goals.

1                   Thank you.

2                   MR. GROSS: Thank you.

3                   Questions from the panel?

4                   MR. RODGERS: Thanks very much, Diane, and  
5 I really appreciate your comments on the success of  
6 the Clean Cities Program.

7                   I would venture to say though that our  
8 analysis indicates that although the Clean Cities  
9 Program has been extremely successful in helping  
10 communities come together and identify plans, we're  
11 not as happy as we wanted to be with the number of new  
12 alternative fuel vehicles that those communities have  
13 been able to put onto the road.

14                   And I've heard a lot of discussion this  
15 morning about incentives that might be better than  
16 mandates in helping to do just that, but I wondered if  
17 you could provide either today or for the record what  
18 kind of incentives are there available to us in the  
19 Department now or that we could ask Congress to make  
20 available to us that could be directed to the local  
21 counties.

22                   More funding for Clean Cities Programs is  
23 an example that I think you kind of implied.  
24 Depreciation is something that works for private  
25 fleets. I don't know if that works for you folks.

1 I would love to have that kind of  
2 information if you can provide that.

3 MS. SHEA: Thank you. We will certainly  
4 look into that. I don't think I'm prepared to answer  
5 that question today.

6 Increased funding is certainly something  
7 that we would be in favor of, but I'd like to give  
8 some thought and do a little bit of work on what some  
9 other ideas might be as well, and get that to you for  
10 the record.

11 MR. RODGERS: Thank you.

12 MS. LEWIS: Do you have a suggested name  
13 for the Clean Cities Program?

14 MS. SHEA: As a matter of fact, I do.

15 (Laughter.)

16 MS. SHEA: We think it should be called  
17 "Clean Communities" because that's what we're building  
18 in these programs. They're not just counties; they're  
19 not just cities. They're regions of the country.

20 They're villages. They're planning areas. So "Clean  
21 Communities," I think, is a better title.

22 We could come up with something catchier  
23 maybe, but that's a start.

24 MS. LEWIS: Thank you.

25 MR. GROSS: I'd like to explore your views

1     for a minute on the possible nexus between the  
2     mandated fleet programs and the voluntary programs.  
3     Do you feel that if the possibility of mandates were  
4     out of the picture that voluntary programs, the  
5     enthusiasm for those, would fall off or that it would  
6     actually pick up?

7                 MS. SHEA: I think it would pick up. I  
8     don't think that people are moving toward either the  
9     Clean Cities Program or voluntary efforts because  
10    they're afraid of the federal mandate. In fact, my  
11    sense is that most counties at least -- I can't speak  
12    for cities -- but most counties are not even aware  
13    that a federal mandate is a potential in the next few  
14    years.

15                So I don't think one has much to do with  
16    the other. More significantly, I think a mandate is  
17    counterproductive to voluntary efforts. You may or  
18    may not be aware that over the last few years there's  
19    been a large grassroots effort from local governments  
20    about the unfunded mandates issue, no mandate with no  
21    money. That's still there. That's still growing.  
22    It's engendered a great deal of negativity and  
23    difficult relationships between local governments and  
24    federal agencies.

25                We haven't yet seen that sort of animosity

1     that is very common between counties and EPA between  
2     counties and DOE, and so I think you're ahead of the  
3     game, and I think you ought to stay ahead of the game  
4     because mandates are just something that counties and  
5     most cities, I think, have made a stand about and are  
6     not going to back down.

7                 MR. GROSS:  Okay.  Thanks again.

8                 MS. SHEA:  Thank you.

9                 MR. GROSS:  We're going to jump ahead a  
10    little bit on the agenda, recognizing our next  
11    speaker's flight arrangements.  So I'll ask Mr.  
12    Charles Stokes to the podium now.

13                MR. STOKES:  Thank you very much.

14                I'm Charles A. Stokes, a chemical engineer  
15    with some 50 years' experience in the energy  
16    industries and 25 years' experience in synthetic and  
17    alternate fuels of which 25 -- today and later on the  
18    subject of methanol cost, technologies, logistics, who  
19    the players are, what it takes to get it out of the  
20    woodwork and so on.  I've lived and breathed this  
21    industry for 25 years now.  I even wake up in the  
22    middle of the night saying "methanol" to myself.

23                (Laughter.)

24                MR. STOKES:  I think Diane, if the  
25    election goes a certain way, by all means should call

1     it Clean Villages.

2                     (Laughter.)

3                     MR. STOKES: I've given the DOE a 56-page  
4     backdrop of my studies of this field, which I hope  
5     will be helpful to them. I can furnish you more  
6     copies if you would like.

7                     It's clear there's two kinds of alternate  
8     fuels. There's the general purpose kind and the  
9     special purpose kind, and I think we need to recognize  
10    this.

11                    The general purpose fuels are just today  
12    the alcohols, alternates. That's all we have. They  
13    can be poured in the tank at atmospheric pressure.  
14    They can be handled safely like gasoline. Nobody can  
15    distinguish between handling them and gasoline. They  
16    are the fuel for the average man, for the great mass  
17    of cars.

18                    Would that we had more of them. We don't.

19                    The special purpose fuels that I would  
20    pick, and I believe you folks have, are CNG, propane,  
21    and kilowatt hours. There are other special purpose  
22    fuels, but they are time frame limited. I'm talking  
23    about things we have now because if you're going to  
24    meet the goal in 2010, you've got to work with what we  
25    have now.

1                   Now, I want to back what AMI had to say  
2   this morning. I thought it was very sensible. They  
3   brought out very clearly that the chicken and egg  
4   problem has kind of been solved. We do have the  
5   flexible fuel vehicle, and Ford is willing to sell  
6   them at a slight discount over gasoline vehicles.

7                   We have that. Now let's look at the  
8   question -- well, let me first say I am very  
9   sympathetic with your problem in sorting out this  
10  vehicle program. It's very complicated. You have the  
11  problem of whose ox gets gored and who pays for what.  
12  It's not easy. I can't help you on that, but I'll try  
13  to help you --

14                  (Laughter.)

15                 MR. STOKES: I'll try to help you on the  
16  question of supply and economics for the one general  
17  purpose fuel that stands out, and as the AMI man said,  
18  it is methanol. It isn't because we necessarily like  
19  methanol. God gave us the molecule, and it's a nice  
20  simple one and cheap and easy to make.

21                 Now, the methanol industry of the world  
22  produces around 30 million tons of methanol a year,  
23  and they regularly keep a ten to 20 percent surplus.  
24  Now, that ten to 20 percent surplus methanol would  
25  fuel on the road one to two million cars. We're a

1 long way from having that many in the fleets. That'll  
2 give you some perspective on what's out there.

3 I helped the California Energy Commission  
4 with the concept of the fuel methanol pool out there.  
5 It was really my brainchild, although Ray Lewis of AMI  
6 told me last night it was his idea, but anyway, what  
7 we said is go to the world of methanol industry and  
8 say, "Fellows, you have surplus production. Instead  
9 of fighting among yourselves with that surplus and  
10 driving the price down to the bottom, why don't you  
11 put it in a pool over here called fuel methanol.  
12 We'll dye it green and put a couple of percent ethanol  
13 in it." The reason for that is so it will not be  
14 usable as chemical methanol.

15 You want a pool for fuel that is not  
16 subject to the ups and downs of the chemical grade  
17 methanol price. You can't have that. You could  
18 perhaps guarantee them a floor price, a good, low one,  
19 and they in turn would say, "We won't ever charge you  
20 more than the ceiling," and that pool would be in a  
21 price range where you could get these alcohol fueled  
22 vehicles on the road economically if you adjust this  
23 tax inequity that AMI spoke of.

24 That's a terrible thing. Methanol is  
25 taxed more than gasoline because of the gallon versus



1 the BTU. That's silly. I'm sure you're going to take  
2 care of that somewhere.

3 Now, in this pool of methanol, the floor  
4 price and the ceiling price could each escalate with  
5 the average of world natural gas and petroleum prices.

6 You have to put together a pool of prices some way the  
7 way we do on oil. We have what we call a basket of  
8 oils, and that would mean then these ceilings and  
9 floors could float up and down as world energy prices  
10 change, but at no time would the methanol industry  
11 gouge the consumer with high chemical prices.

12 Now, we had one of these price spikes  
13 about two years ago, and I got up in Monte Carlo and  
14 gave a speech and predicted that the price spike would  
15 come down in six months. In fact, it came down in six  
16 weeks, and when it came down, methanol went to a lower  
17 price than the cash cost of some of the producers. So  
18 they learned a little lesson there, but don't worry  
19 about price spikes.

20 The methanol industry is large. It's  
21 strong. It has good technology. We have natural gas  
22 all over the world.

23 Now, in my report you will see some  
24 estimates like this: that if you met the ten percent  
25 quota in the year 2000 and the 30 percent in 2010, we

1 would have to use, if we made it all from U.S. natural  
2 gas, would have to use about another 15 to 30 percent  
3 of natural gas as we do now.

4 I am told by the industry that they can  
5 produce this gas at a very modest increase in price,  
6 and I believe it. There is probably more natural gas  
7 reserves in this world in BTUs than there is  
8 petroleum. This is another thing that you will find  
9 the experts pretty well agree on.

10 So here is a fuel with a real raw material  
11 base behind it.

12 Now, ethanol is an excellent motor fuel,  
13 nothing wrong with it at all, except it has no  
14 resource base in back of it. There isn't that much  
15 corn available and so on. If it were, I'd be all for  
16 it. I'm all for it anyway. I mean let's use any of  
17 these fuels we can.

18 But if we're going to meet goals like the  
19 Congress has set, we've got to have a resource base.

20 Now, underneath methanol sits coal, and I helped DOE  
21 spend \$12 million over these 25 years on three  
22 enormous coal to methanol feasibility studies. One of  
23 them envisioned a plant that was equivalent to a  
24 50,000 barrel a day refinery. It was big.

25 We know how to do that. We are making

1     methanol from coal right now. Tennessee Eastman down  
2     in -- or now Eastman Chemical -- in Tennessee is doing  
3     it. In fact, I was their consultant in selecting the  
4     gasifier. So we know how to do it.

5                 It costs more in capital. The raw  
6     material cost is less.

7                 The Great Plains gasification plant which  
8     was designed for some reason to make methane, and back  
9     15, 20 years I was arguing down here in Washington,  
10    "For God's sake make methanol. Don't make methane."  
11    Well, it went busted, and you guys had to bail it out  
12    on the loan guarantee, and then you had to sell it to  
13    the present owner for nearly nothing. Now, he's just  
14    barely able to operate because he has some capital,  
15    and he's paying 80 cents a million BTUs for his raw  
16    material, not \$2 like gas in Texas.

17                If you converted that plant to methanol,  
18    you'd have two world scale plants sitting right there  
19    in Beulah, North Dakota, and there's a product  
20    pipeline a few miles from it owned by Amoco that could  
21    take all the methanol to the river.

22                I don't have to say any more. You can get  
23    the picture. Now, what we need to do is to straighten  
24    out this tax matter so that methanol is not penalized,  
25    and it really should be encouraged, and I'll tell you

1     why it should be encouraged.

2                     We need to straighten out the pricing  
3     matter. We need to give the public a reason to buy.  
4     Now, why should we straighten this out?

5                     Methanol raw material costs, if you go  
6     down to Texas and build a brand new plant with \$2 gas  
7     and buy \$20 crude oil for your refinery over here, and  
8     you build a brand new refinery. The raw material cost  
9     for 1.6 gallons of methanol, which is the equivalent  
10    of a gallon of gasoline, is less than the raw material  
11    costs for the gallon of gasoline from \$20 crude.

12                    The cost to run these two new grassroots  
13    plants per BTU is about the same, the operating cost.  
14    If you look at the capital imbedded in the two brand  
15    new plants and take a 20 percent return on it before  
16    tax and add that in to get a selling price, lo and  
17    behold, the two fuels sell essentially the same price,  
18    1.6 gallons the same as one gallon.

19                    Now, what that says is we're there now  
20    economically. Methanol is not too expensive. We're  
21    selling gasoline with no return on refining assets.  
22    The head of Shell Oil International recently published  
23    an article saying, "We in Shell Oil with all of our  
24    refineries around the world are very unhappy. We've  
25    been making less than four percent return on book

1     assets, not replacement but book, and we don't like  
2     it, and we want to do something about it."

3                 That's why this disparity exists. Well,  
4     let's correct that disparity temporarily until the two  
5     fuels compete apples to apples and head to head. Then  
  
6     you've got a show that will run because we know  
7     methanol is a good fuel. We've tested it and used it  
8     for God knows how long.

9                 So that's about the story, and in closing  
10    I would say that the good Lord doesn't give us many  
11    chances. Methanol is a simple molecule, easy to make,  
12    very easy to handle. You can make it out of anything  
  
13    that's got carbon in it. You could grind up chickens  
14    and make it into methanol if you wanted to, and I am  
15    associated with a leading edge technology for making  
16    it out of wood.

17                Now, we can do that. It's in the next  
18    time frame, the 2010 time frame before we'll be there,  
19    but down the road we can make methanol out of wood or  
  
20    biogas. I'm working with the government of India on  
21    biogas.

22                Now, if we go a step further and we learn  
23    how to capture the sun and electrolyze water  
24    economically, we make hydrogen. Go over here to the  
25    power plant and scrub out some CO<sub>2</sub>, and lo and behold,

1 H2 and CO2 together can make methanol. So we have a  
2 way to use some of the CO2 that we're so worried about  
3 if we solve the hydrogen problem.

4 So that'll give you some food for thought  
5 and let me know if I can help you.

6 Thank you.

7 MR. GROSS: Thank you very much.

8 MS. LEWIS: I'd like to ask you a  
9 question.

10 MR. STOKES: Sure.

11 MS. LEWIS: I have been hearing  
12 conflicting testimony today about the safety of  
13 methanol. Now, why am I hearing it?

14 On one hand, I heard this morning it's not  
15 safe. There are health problems with it, and you are  
16 saying something, I think, entirely different --

17 MR. STOKES: Yes.

18 MS. LEWIS: -- from what I just heard  
19 earlier. Can you explain to me why I'm hearing this  
20 conflicting testimony?

21 MR. STOKES: I think you're hearing that  
22 kind of testimony for exactly the same reason we hear  
23 that the Republicans want to cut Medicare when they're  
24 increasing the expenditure each year but increasing it  
25 less. It's that kind of thinking.

1                   We have been handling methanol now -- the  
2   first synthetic methanol, by the way, was made from  
3   coal in Germany, and they transferred the technology  
4   over here and made it from coal, too -- we've been  
5   handling methanol for all those years and for at least  
6   30 years before that, we made it out of wood, by the  
7   way, by distilling wood. We handled it for those 30  
8   years.

9                   Then in 1925 the Germans synthesized it.  
10   We've been handling it all those years. In all my  
11   career, I have never heard of a single case of anybody  
12   being killed from methanol. I have not heard of  
13   anybody drinking it. If you look in the records of  
14   how many methanol poisonings are reported per year,  
15   you can hardly find them.

16                  By the way, the antidote for methanol if  
17   you get a slug of it is ethanol. It turns out that  
18   the body can metabolize ethanol, and when it starts  
19   metabolizing ethanol it tricks the methanol, and it  
20   goes, too. I don't advocate that, but --

21                  (Laughter.)

22                  MR. STOKES: -- things are dangerous all  
23   over. Gasoline is dangerous. It contains aromatics  
24   which are carcinogenic, and so on.

25                  It's just we've got to handle things like

1     this. Electricity is dangerous. People get killed  
2     with it every day. I wouldn't worry about it.

3                 MS. LEWIS: Thank you.

4                 MR. McARDLE: Just one. Did you submit a  
5     copy of your remarks?

6                 MR. STOKES: Yes, I sure did.

7                 MR. GROSS: Well, thank you very much.  
8     You have given us a bit to chew on and swallow, I  
9     suppose.

10                (Applause.)

11                MR. GROSS: All right. We'll go back to  
12     our regular schedule, and our next speaker is Mr.

13     David Keefe from the City of Rochester.

14                MR. KEEFE: Good afternoon. My name is  
15     David Keefe, and I presently serve as Fleet Service

16     Manager for the City of Rochester, New York, a  
17     municipality located in western New York State.

18                Our municipal fleet is comprised of  
19     approximately 1,100 vehicles and serves the needs of  
20     a full service city government.

21                In addition to representing Rochester city  
22     government, I am also here as a representative of the  
23     Genesee Region Clean Communities organization, or  
24     GRCC, and we've solved that problem already with the  
25     cities and the counties.



1 (Laughter.)

2 MR. KEEFE: We've got the city there, the  
3 county there and Kodak and so forth. So it works.

4 Our Clean Communities organization is  
5 comprised of 17 different public and private  
6 organizations or firms representing a wide variety of  
7 interests within the Greater Rochester area.  
8 Currently we have more than 40 individuals active in  
9 our Clean Communities work.

10 Since our formation in mid-1995, the group  
11 has grown significantly and continues to grow and  
12 evolve. At present we have an application for  
13 recognition pending with U.S. DOE as a designated  
14 Clean City. We are hopeful that this designation will  
15 be forthcoming prior to the end of 1996.

16 As an organization, Genesee Clean  
17 Communities works as a cooperative consortium of  
18 interested parties to develop and promote the use of  
19 alternate transportation fuels and share information  
20 about alternate transportation fuels, the ultimate  
21 goal being improved air quality and reduced dependence  
22 on petroleum based and imported fuels in compliance  
23 with federal and state legislation.

24 Last fall, our Clean Communities group, in  
25 conjunction with the New York State Research

1 Development Agency, NYSRDA, co-sponsored a one-day  
2 seminar on alternative fuels at a local college, the  
3 Rochester Institute of Technology. Attendance  
4 exceeded 100 participants.

5 Tomorrow, October 10th, we will co-sponsor  
6 another one-day event in conjunction with RP  
7 Publishing. This entitled a fleet managers seminar on  
8 alternative fuel vehicles. We expect attendance for  
9 this seminar to exceed 150 participants. These  
10 activities help to educate and inform local  
11 stakeholders about present and future possibilities  
12 for alternative fuel vehicles. Our group will  
13 continue such efforts.

14 Genesee Region Clean Communities and the  
15 City of Rochester endorse the philosophy and  
16 principles of the Energy Policy Act of 1992. The  
17 goals of cleaner air and reduced dependence on  
18 nondomestic fuel sources are clearly meritorious.

19 The timetable and requirements for  
20 implementation, however, are problematic for regions  
21 like the Rochester metropolitan area. Simply put, it  
22 is too much too soon. There are several obstacles  
23 that stand in the way of compliance as proposed in  
24 this legislation, and you've heard variations of these  
25 today, but I'd like to go through them briefly.

1                   The four basic areas of concern for a  
2   locality like ours are as follows.  
3                   One, vehicle acquisition.  
4                   Two, refueling infrastructure.  
5                   Three, user awareness and education.  
6                   And, four, maintenance and repair issues.  
7                   Vehicle acquisition. I'd like to correct  
8   my written remarks because I think I had some  
9   misinformation. I thought that GM and Ford were both  
10   offering at least some alternate fuel vehicle  
11   products, but apparently Ford is the only one in the  
12   '97 model year that is.

13                  I guess that proves to illustrate the  
14   point even more so, but there's a limited selection of  
15   Ford automobiles, light trucks and vans as AVFs in  
16   primarily the compressed natural gas category.  
17   Chrysler last year had a lot of marketing about their  
18   CNG vehicles, but in '97 they have curtailed their AVF  
19   production for the '97 model year. Apparently they  
20   will resume production later when technology problems  
21   are resolved.

22                  Domestic vehicles are typically the staple  
23   of municipal fleets like Rochester's. The current  
24   limited availability of off-the-shelf vehicles from  
25   auto makers constrains the acquisition of new vehicles

1 by limiting selection and making vehicle conversions  
2 one of the only viable options for certain models.

3 The availability of alternative fuel  
4 conversion vendors in a region like ours is limited.

5 Two, refueling infrastructure. I'm going  
6 to invoke the chicken and egg dilemma again. I'm at  
7 least the fourth person. You're going to think you're  
8 over at Agriculture rather than Energy, but I think  
9 it's apt in describing this problem.

10 At present in our community it appears as  
11 if CNG is our best option. However, we only have one  
12 CNG refueling station currently in our area. Our  
13 metropolitan area is about 900,000. It is owned and  
14 operated by our local utility, Rochester Gas and  
15 Electric.

16 The facility is located in the southwest  
17 portion of the county, and it's about a ten to 12 mile  
18 round trip from our central vehicle maintenance and  
19 storage facility and conventional fueling depot.

20 There has been interest in developing additional, more  
21 convenient CNG fueling sites, but to do so requires  
22 customers who drive these vehicles to make this an  
23 economically viable proposition.

24 Fleet managers cannot rationally acquire  
25 such vehicles without the presence of convenient

1     fueling. Local fleets, like the city and the county,  
2     are working on options, but this will take time and  
3     major investments.

4                 Number three, user awareness and  
5     education. Much work must still be done to expand  
6     understanding and awareness about alternate fuel  
7     benefits, options, advantages, and disadvantages.  
8     This is critical to fleets that initiate such  
9     programs.

10                These vehicles must be driven by operators  
11     who have an awareness and acceptance of the safety and  
12     viability of AVFs. These individuals are key in  
13     making an AVF program a success or failure.

14                This education effort needs to be  
15     addressed at the federal and state government levels,  
16     as well as at the local government level, through  
17     fleet managers and organizations such as Genesee  
18     Region Clean Communities. This represents a major  
19     shift in culture and attitudes.

20                Four, maintenance and repair. The  
21     technology of AVFs is different than the existing  
22     gasoline or diesel technology. Fleet technicians or  
23     mechanics are already faced with other rapidly  
24     changing conventional technologies, things like  
25     electronic diagnostic systems and ABS. They must be

1     trained to repair CNG or propane or electric vehicle  
2     repair if their fleet has chosen one or more of these  
3     options.

4                 New tools and equipment will have to be  
5     acquired. This will require time and money from local  
6     governments and utilities.

7                 In addition, maintenance facilities will  
8     have to be reengineered to safely accommodate some  
9     types of vehicles, particularly those with fuel  
10    sources like CNGs.

11                I have outlined some of the key issues  
12    relative to AVF acquisition for fleets at the local  
13    level. We at the City of Rochester and the Genesee  
14    Region Clean Communities believe the EPAct legislation  
15    and regulations are essential as a catalyst for  
16    alternative fuel activity and development.

17                Based on the obstacles and practical  
18    constraints I have mentioned, it is my recommendation  
19    that DOE consider delay of the mandated alternative  
20    fuel acquisition schedule as outlined in Section  
21    507(a), with initial acquisition beginning at 20  
22    percent in 1999 and going forward.

23                If mandates are forthcoming, the schedule  
24    outline in Section 507(g), that is, 20 percent, 2002,  
25    40 percent in 2003, et cetera, is ambitious, but more

1     achievable for localities like ours. This would  
2     provide a minimum of five years for development of  
3     vehicle product lines, growth in evolution of Clean  
4     Cities organizations, spreading of the word through  
5     education and awareness, and development of  
6     infrastructure through collaborative partnerships at  
7     regional state and local levels.

8                 This is a much more realistic time frame,  
9     given the current state of the AVF environment in most  
10    areas of the U.S.

11                In addition, I further recommend that DOE  
12    strongly consider measures that will provide  
13    opportunities and incentives to produce additional AVF  
14    by auto makers, further develop AVF technologies,  
15    particularly electric vehicles, and build refueling  
16    infrastructure.

17                There are many policy options to be  
18    considered that could help jump start an AVF program  
19    at the local level. Examples include grants and aid,  
20    tax incentives, and low interest loans to businesses,  
21    local governments or utilities.

22                I realize the difficulties in funding such  
23    initiatives in the current fiscal and political  
24    environment. However, some type of added assistance  
25    could be instrumental in helping permanently establish

1 a program that is so important to our future.

2 I want to thank you for the opportunity to  
3 participate in these hearings today and in this  
4 rulemaking process.

5 MR. GROSS: Thank you.

6 Questions?

7 MR. RODGERS: Thank you very much.

8 I don't know if you were here earlier,

9 but --

10 MR. KEEFE: I only missed one.

11 MR. RODGERS: -- I was asking Diane, I

12 guess, what incentives might be useful for local

13 governments, and here you've got several in there, and

14 I guess I would just like to follow up on that.

15 Low interest loans would work for local

16 governments?

17 MR. KEEFE: I think that would probably  
18 work for local governments and businesses like Kodak.

19 You know, I think the key is jump start. You've got

20 to -- the City of Rochester does one alternate fuel  
21 vehicle right now. We've ordered it. It's a propane  
22 fuel, asphalt reclamation vehicle. So they need to

23 melt the asphalt in the back, and they're going to use

24 that to run the engine. We have no other vehicles,

25 I'm embarrassed to say, but we'd like to get into it,



1 but it's hard with the cost differentials on a per  
2 unit basis, you know, with the three, 4,000  
3 difference, the lack of refueling.

4 I guess, you know, demonstration programs  
5 used to be prevalent at the federal level, grants that  
6 would allow communities to do a demonstration project.  
7 I think that type of thing would be helpful for a  
8 city. If we could go out and acquire -- for example,  
9 we have a city hall carpool fleet of ten vehicles.  
10 That would be ideal for an electric vehicle fleet, and  
11 you don't ever go more than about ten miles a day. We  
12 could plug them in every night. It would be a great  
13 demonstration effort.

14 So I think those kinds of things for  
15 federal government would be helpful.

16 MR. GROSS: Does your application for  
17 Clean Cities designation have quantitative commitments  
18 to alternative fuel vehicles by certain dates?

19 MR. KEEFE: Right. We have a summary of  
20 activities. Because we have a broad based group,  
21 there are a number of different, small initiatives  
22 that we have done. For example, the propane fueled  
23 asphalt reclamation vehicle, I think, is mentioned in  
24 there, but we really haven't made any -- the SEED, for  
25 example, which is only one organization out of 17,

1     hasn't made anymore specific commitments on  
2     application.

3                 MS. LEWIS:  You mentioned that you have  
4     only one CNG refueling station in your area?

5                 MR. KEEFE:  That's correct.

6                 MS. LEWIS:  And that's only for that  
7     particular utility.  The public cannot use this --

8                 MR. KEEFE:  No.

9                 MS. LEWIS:  -- particular station?

10                MR. KEEFE:  Well, actually it's made  
11     available.  I'm not sure if the driver on the street  
12     can use it, but I know that we did have five CNG buses  
13     the transit company purchased several years ago.  
14     Those have now been shipped to Syracuse, I guess,  
15     because they're going to go completely CNG, but the  
16     buses refueled there.

17                The County of Monroe, which is the county  
18     in which we're located, has five CNG Tauruses.  They  
19     refuel there.  The utility ironically doesn't have any  
20     CNG vehicles right now.

21                (Laughter.)

22                MS. LEWIS:  The reason why I asked that  
23     question is it may be cheaper, if I can use that word,  
24     for the utilities to do more in this area, and  
25     therefore, the public may be interested -- and when I

1     say "public," I mean people like me and the rest of us  
2     for the most part -- may be interested in buying one  
3     of these vehicles, and as a consequence, the prices of  
4     these vehicles will go down because more people are  
5     buying them.

6                     Within your organization, do you or have  
7     you had discussions with some of your utilities with  
8     this kind of idea of cooperation?

9                     MR. KEEFE:  Yes, we have.  We currently  
10    have -- with the imminent deregulation and changes  
11    that are going to impact this utility, which is both  
12    a gas and electric provider, privately owned however,  
13    I think they're looking at some of the alternatives  
14    and entrepreneurial options available to them, and  
15    they have created a spinoff, nonregulated entity that  
16    is going to do things like build CNG fueling, and they  
17    have had a change at the top in the organization.  I  
18    think their previous managers perhaps were in the old  
19    mode and weren't pushing these kinds of things, but I  
20    think the new leadership there at the utility is  
21    interested in this kind of thing.

22                     That, coupled with the deregulation, we  
23    have discussions of them building strategically a  
24    couple of stations, and we would need to make a  
25    commitment to them to provide a minimum number of

1     vehicles that would be refueled, and we would simply  
2     purchase fuel from them.

3                 So I think that those kinds of things are  
4     possible. I guess that's my point. It's going to  
5     take time to develop these things, and I think they  
6     can evolve.

7                 If you go to Buffalo, which is 70 miles to  
8     the west, you have five or six CNG refueling stations  
9     there. They have a different utility. They have  
10    National Fuels, Inc., and you can pull off the street  
11    with your card and get compressed natural gas. They  
12    have a village there, the village of Tonnawanda, that  
13    had a zealot in their shop who became interested in  
14    this about eight or ten years ago, and now they have  
15    of their 22 vehicles in the Water and Sewer  
16    Department, they're all CNG. They have a brand new  
17    refueling station right next to their village barns.  
18    They do the conversions themselves. They go out and  
19    preach the gospel about this.

20                So I mean, I think there are pockets of  
21    interest, and I think the key is to try to support  
22    those pockets and create more pockets of interest.

23                MR. GROSS: Thanks again, Mr. Keefe.

24                MR. KATZ: I have no more. I have one  
25    more.

1 MR. GROSS: All right. Mr. Katz.

2 MR. KATZ: Sorry to belabor the point, but  
3 I think this is a good question I'm going to raise  
4 here.

5 You are the first person to actually  
6 espouse, if I use that word correctly, a possible late  
7 mandate in addition to the incentives. Now, the late  
8 mandate gives us the option of waiting until -- I was  
9 looking through this right now -- May 1st, '99, to  
10 propose it, and January 1, 2000, to put it into  
11 effect.

12 Do you recommend that we go forward on the  
13 incentive and all of the tax routes and the voluntary  
14 routes and possibly hold this back to see if maybe we  
15 might need that to encourage the market?

16 MR. KEEFFE: I think certainly, you know,  
17 I'm not a big proponent of mandates. I guess because  
18 I work for the government, we're used to making rules  
19 for the citizens of Rochester. So maybe I accept some  
20 of those things as inevitable. I'm not a proponent of  
21 mandates, but I think that some push is necessary.

22 I'm not sure how much of these, quote,  
23 unquote, voluntary efforts will exist if there's no  
24 real regulatory pressure.

25 Certainly I think the incentives, the

1 financial carrots are out there with the anticipation  
2 that there will be stricter rules down the road. It  
3 would certainly be a way to go. It would help some of  
4 these things evolve because I think, quite frankly, a  
5 lot of people want to do these kinds of things, and I  
6 think it depends on what kind of organization you're  
7 dealing with.

8                   We have a relatively tight geographical  
9 area that doesn't have some of the problems that  
10 corporate fleets have where people are traveling two  
11 or 300 miles in a day to do sales calls or something,  
12 you know. If we put 20,000 miles a year on some of  
13 our vehicles, that's a lot, unless it's a police car  
14 or something. They're not driving lots of miles. So  
15 there are applications in a tight geographic, urban  
16 area where some of these alternate fuel things, given  
17 some of the other obstacles, can work.

18                   Did I answer your question?

19                   MR. KATZ: Sort of. That's good enough.

20 Thank you.

21                   MR. KEEFE: Okay.

22                   MR. GROSS: Thanks.

23                   MR. KEEFE: Thank you.

24                   MR. GROSS: Next up is Mr. David Byerman  
25 from the Greater Philadelphia Clean Cities Program.

1                   MR. BYERMAN: Thank you very much.

2                   You know, if you look at your schedule of  
3 speakers for today, you'll notice that I have two  
4 strikes against me before I even start. First, I'm  
5 precisely in the middle of your scheduled speakers,  
  
6 making me very easy to overlook, and second, we're  
7 here about an hour after lunch, which means it's about  
8 nap time. I'm not going to try to get the third  
  
9 strike by repeating what you've already heard or by  
10 doing anything repetitive. I would like to give you  
11 a new perspective from a Clean Cities Program that's  
12 been around for a while.

13                  My name is David Byerman. I am an  
14 independent consultant in the Philadelphia area, and  
15 I'm here today in my capacity as Executive Director of  
  
16 the Greater Philadelphia Clean Cities Program, or  
17 "Clean Villages Program" maybe I should say, a public-  
18 private partnership in Philadelphia and its  
19 surrounding suburbs, comprising some of the largest  
  
20 utility, government, and nonprofit organizations in  
21 our region, all working together to promote the use  
22 and infrastructure for alternative fuel vehicles in  
  
23 and across the Philadelphia region.

24                  It is my pleasure to speak with you here  
25 today about the advanced notice of proposed rulemaking

1     for the alternative fuel vehicle acquisition  
2     requirement rules for private and local government  
3     fleets and to present the GPCCP's position on the  
4     adoption of future regulations.

5                 The Greater Philadelphia Clean Cities  
6     Program was founded on September 26th, 1993, the third  
7     Clean Cities Program so recognized by the U.S.  
8     Department of Energy. Since that original designation  
9     ceremony, the Philadelphia program has become one of  
10    the most progressive and active in the country.

11                We were the first to hire a director for  
12    the program independent from any of the stakeholders;  
13    among the first to establish our own newsletter, World  
14    Wide Web site, fiscal year budget, and elected board  
15    of directors.

16                Our monthly meetings, the next of which is  
17    tomorrow morning, have been widely recognized for  
18    drawing high profile speakers and participants from  
19    literally hundreds of miles around.

20                Our program has also proven itself as one  
21    of the most active in the nation in terms of its  
22    regularly scheduled activities. As I speak here  
23    today, I am missing an opportunity to engage in the  
24    same RP Publishing seminar that David just mentioned.  
25    In the last two months we have welcomed over 400



1 people to events co-sponsored by our program,  
2 including a station grand opening and project  
3 financing workshop in August, which drew over 250  
4 people; a fleet managers breakfast in September, which  
5 drew over 100; and our regularly scheduled monthly  
6 meetings, which typically draw 25 to 35 people a  
7 piece.

8 I am very fortunate to be working with  
9 such a dedicated and helpful group of stakeholders in  
10 Philadelphia, eight of which are here today, and I'm  
11 happy to report that we are making great strides in  
12 developing the use of AVFs in the bi-state Greater  
13 Philadelphia Region.

14 When considering the matter at hand today,  
15 I think first it is important to make clear the  
16 context within which regulations are to be adopted.  
17 Specifically, what criteria are being used by the  
18 federal government to determine whether the goals set  
19 forth in the Energy Policy Act are attainable or  
20 whether, indeed, they are still goals at all?

21 The stakeholders of our organization are  
22 very hopeful that the administration can take  
23 advantage of future opportunities to promote the issue  
24 of energy security. We feel that one missed  
25 opportunity occurred in the early summer of this year

1     when continued tensions in the Middle East and  
2     domestic supply shortages caused a spike in gasoline  
3     prices across the country.

4                 The administration missed the opportunity  
5     to reinforce the theme that these gasoline price  
6     spikes completely outside the direct control of our  
7     government represented in dramatic terms the energy  
8     security crisis that this nation faces. The public's  
9     preoccupation with this trivial ten to 20 percent  
10    increase in gas prices belied our underlying  
11    dependence on cheap and convenient sources of  
12    gasoline. Convenient and economical alternatives must  
13    be stressed to break this addiction.

14                It seems before the Department of Energy  
15    can reasonably begin a public debate on the merits of  
16    private sector and local government mandates, there  
17    must first be consensus in our nation that there is an  
18    energy security crisis in the first place. Our belief  
19    is that the energy crisis is clearly seen by officials  
20    within the Department of Energy, but that those  
21    beliefs often get subsumed to domestic political  
22    considerations.

23                The President can be very helpful to our  
24    cause by making clear the strategic importance of  
25    alternative fuels research and development.

1                   With such high profile attention to the  
2   issue of energy security, other incentive programs  
3   will be easier to justify. Public sentiment will be  
4   more supportive of funding programs, which will then  
5   drive the option of alternative fuel technologies.

6                   We support most of the legislative  
7   initiatives included in H.R. 4288, proposed by  
8   Representative Joe Barton of Texas. This bill  
9   includes the wide spectrum of incentive programs which  
10  would be helpful in improving the market for  
11  alternative fuel vehicles.

12                  An emission credit trading system would  
13  reward businesses for exceeding mandated AVF usage and  
14  would incentivize entrepreneurs in developing the  
15  infrastructure for these vehicles.

16                  Tax credits both for the use of  
17  alternative fuel vehicles and for infrastructure  
18  development would further enhance the economic  
19  benefits of AVF usage for fleet managers and expand  
20  the range of fueling options for fleet managers  
21  seeking a convenient and economical alternative fuel.

22                  Further, legislative initiatives,  
23  including revisions of the tax depreciation schedules  
24  for alternative fuel vehicles and stations, deserve  
25  merit, too, and would further assist us in our goals.

1                   Unlike any of your other speakers, except  
2 perhaps for the immediate prior speaker today, our  
3 stakeholders do not concur with the removal of AVF  
4 mandates included in Mr. Barton's bill. Mandates,  
5 realistically implemented and backed by the expressed  
6 determination of the Department to enforce them, are  
7 a valuable tool that we cannot cast aside.

8                   To achieve the goal of private sector and  
9 government adoption of these alternative fuels, the  
10 government must demonstrate its determination to  
11 fulfill the letter of the law. Poorly supervised  
12 regulatory efforts will only serve to undermine our  
13 case and detract from the assets of these alternative  
14 refueling options. An idle threat in this case is  
15 even worse than no threat at all. That is our  
16 concern.

17                  It is important to note that focusing on  
18 voluntary incentive programs, as the vast majority of  
19 your speakers have said today and as we concur with,  
20 that is not inconsistent with brandishing the  
21 regulatory threat. This is where the Office of  
22 Transportation Technologies and many of the Clean  
23 Cities staff across the country can be the most  
24 helpful to those of us involved with Clean Cities  
25 efforts, especially those of us in more organized

1     Clean Cities Program like here in Washington and up in  
2     Philadelphia, where we run on a separate budget and  
3     fundraise by recruiting additional members.

4                 We need to have some urgency to our  
5     appeal, and we need to provide some goods or service  
6     that prospective members gain by their membership in  
7     our Clean Cities Program.

8                 The Department of Energy is in a very  
9     influential position to make our case that much  
10    easier. By making explicit the important and  
11    fundamental role that public-private partnership play  
12    in the development of public policy, the Department of  
13    Energy can give us a very persuasive and timely  
14    argument for convincing prospective members of the  
15    importance of joining our program.

16                The department's regional staff has proven  
17    an invaluable resource for those of us working in  
18    Clean Cities partnership. Uniformly they do an  
19    excellent job, and while they are extraordinarily  
20    helpful, they can be even more helpful by stressing  
21    the importance of our Clean Cities organizations and  
22    couching their language to make clear that any failure  
23    of these public-private partnerships to attract wide  
24    cooperation could lead to the imposition of even more  
25    costly and unwanted regulations.

1                   Will we reach the displacement goals set  
2     in Section 205(b)(2) of the Energy Policy Act of 1992?  
3     We believe not, given current rates of use for  
4     alterative fuels. Just by an active three year old  
5     program in Philadelphia, we feel we have yet to make  
6     significant progress toward our own regional goals.  
7     We also suspect that DOE's original goal of putting a  
8     quarter of a million alternative fuel vehicles on the  
9     road by this year has encountered similar  
10    difficulties.

11                  One way in which we feel we can get on the  
12    right track is by full development of the Philadelphia  
13    Regional Support Office's Northeast Clean Corridors  
14    Project, and we urge full funding and implementation  
15    of a comprehensive marketing and implementation  
16    strategy along the Northeast Corridor, with  
17    Philadelphia serving as the hub for this corridor.

18                  Yes, we have been delayed in the  
19    realization of our goals, but the consensus of our  
20    stakeholders is that the process has been hindered not  
21    so much by any failures in our organization, but  
22    instead as a simple reflection of human nature. Fleet  
23    managers are like people in general. They're adverse  
24    to change, especially when they are being asked to  
25    change from something that is ingrained in their

1     psyche as a natural right, a veritable component of  
2     life in these United States.

3                 We believe that we are making progress,  
4     but that that progress will take longer than was  
5     originally forecast.

6                 There is an old saying that tells us that  
7     in order to go faster, sometimes we need to slow down.  
8     This saying is consistent with our beliefs about the  
9     promulgation of private and local government fleet  
10    rules under the Energy Policy Act.

11                If the Department comes to the conclusion  
12    that it concurs with our suspicion, the Energy Policy  
13    Act regulations may not conform to the political times  
14    in which we live. We ask that the Department move  
15    forward vigorously to provide funding opportunities,  
16    new tax treatments, increased visibilities for  
17    alternative fuels, and energy security as a national  
18    issue and priority, and increased usage of AVFs by  
19    government fleets at the federal and state levels.

20                The government needs to lead by example in  
21    this case. It needs to help us make the case to fleet  
22    managers that based on a bottom line, economic  
23    assessment of the market for these new fuels, the  
24    choice is clear.

25                We need to make the case so unmistakable

1     that fleet managers will finally break their co-  
2     dependency on imported foreign oil and ultimately on  
3     gasoline itself. By diversifying our energy usage and  
4     by softening the market for these alternative fuel  
5     vehicles, in particular, the federal government can  
6     meet its long-term energy security goals.

7                 To speed up, slow down. Increase funding  
8     opportunities for fleets. Increase the pressure on  
9     private sector organizations to join and support Clean  
10    Cities efforts. Increase the prominence of energy  
11    security as a national issue. Increase the  
12    development of clean corridors across the country, and  
13    most especially here in the Northeast.

14                Decrease the rush to promulgate hasty  
15    regulations that have little chance of being  
16    realistically enforced. Whatever regulatory strategy  
17    is adopted, proceed deliberately lest the strategies  
18    do more harm than good.

19                Mean what you say as a Department and as  
20    a government. We need to take a pro business approach  
21    to market development for these fuels in order to  
22    insure a bright future for these fuels. Until that  
23    time, organizations like the Greater Philadelphia  
24    Clean Cities Program will be fighting the good fight  
25    to assist the Department of Energy in these efforts.



1                   Thank you very much.

2                   MR. GROSS:   Thank you.

3                   MR. McARDLE:   I have one quick question.

4       In your testimony you are talking about various  
5       funding opportunities, and one of the things you

6       mentioned was new tax treatments.

7                   Now, I know earlier in your statement you  
8       talked about tax depreciation schedules.   Could you  
  
9       elaborate a little more on what you were referring to  
10      in terms of tax treatments?   Were you referring to the  
11      vehicles or fuels?

12                  MR. BYERMAN:   I think primarily I was  
  
13      referring to the depreciation schedules.   I think also  
14      there is an issue that others have more expertise in  
15      than I do about the sales tax for these fuels and, you  
  
16      know, providing equal tax treatment for the different  
17      fuels.

18                  MR. McARDLE:   Okay, and also getting back  
19      to depreciation, I guess you're maybe referring to  
  
20      some sort of accelerated depreciation on these?

21                  MR. BYERMAN:   Much like the three-year  
22      depreciation schedule on the Barton bill, for example.

23                  MR. McARDLE:   Okay.   Thank you.

24                  MR. RODGERS:   Thank you very much, Dave,  
25      for your comments and for all of your efforts in

1 Philadelphia promoting alternative fuels.

2 Let me follow up on something that Mr.  
3 Katz brought up earlier in terms of the later  
4 rulemaking as a possible, as you mentioned in your  
5 testimony, a possible tool that we would use to  
6 encourage people to comply.

7 If we were to promulgate a later  
8 rulemaking, the deadline in the statute is January 1  
9 of the year 2000. Knowing our administrative  
10 procedures, we'd probably have to begin work on that  
11 by January 1 of 1998.

12 That's about a year from now. So is a  
13 year a long enough time for us to work with  
14 organizations like yours, like the fleets, like the  
15 fuel providers, the automobile companies, to work out  
16 a set of incentives that we would have some confidence  
17 would be in place so that we can make a decision as to  
18 whether or not to begin that rulemaking?

19 MR. BYERMAN: I think, knowing your  
20 administrative processes, you know, there's no way  
21 that we're going to get in the early schedule for this  
22 fleet rule. So the only option aside from not doing  
23 any regs. at all would be to follow that second course  
24 of action.

25 And I think our concern uniformly -- we

1     had a board meeting yesterday -- and the sentiment  
2     that came out of that board meeting was that there is  
3     a lot of concern that the DOE would go forward with  
4     promulgating these regulations, but would  
5     simultaneously be doing all they could to encourage  
6     voluntary measures, and that that would weaken the  
7     entire message because nobody takes that seriously and  
8     because a lot of the people that are involved with  
9     this program have been involved with previous,  
10    especially transportation programs, that have gone so  
11    far down the line, supposed to be happening, supposed  
12    to be happening, and then the week before or the month  
13    before the regulation takes effect, all of a sudden  
14    the rug is pulled out from under everything.

15               We believe that that would serious damage  
16    and perhaps ruin the chances of any future regulations  
17    being taken seriously, and we also fear that it would  
18    cause people to analogize, correctly or incorrectly,  
19    this process we're going through with a lot of the  
20    processes that were followed in the '70s with the  
21    energy crisis then. I think a lot of people thought  
22    that there were some big claims made during the '70s.  
23    There was a big sense of urgency, and then all of a  
24    sudden the entire issue got resolved, and then  
25    everything was back to where it was before.

1                   I think the consensus of our stakeholders  
2   is that in order to have regulations that are going to  
3   work and that are going to be taken seriously by the  
4   private sector, which is going to fight this tooth and  
5   nail, the DOE has to not only promulgate the regs.,  
6   but they have to have the people out there to say,  
7   "We're going to enforce them. This is how. This is  
8   who, and this is what's going to happen if you don't  
9   follow these regulations."

10                  If I could just say one final thing.

11                  MR. GROSS: Sure.

12                  MR. BYERMAN: And that is that I want to  
13   emphasize the role of the Ford Motor Company this year  
14   in the process of trying to get alternative fuel  
15   vehicles on the market. Several of your speakers  
16   today have mentioned the high incremental cost for  
17   alternative fuel vehicles, and some of you and  
18   certainly some of the people in the audience might not  
19   be familiar with the fact that Ford has some  
20   extraordinary pricing programs this year, including a  
21   zero dollar incremental cost on some of their  
22   Econoline vans and even some of their flexible fuel  
23   vehicles which are being sold at less than NSRP for  
24   the comparable gasoline vehicles.

25                  I think that, and many members of our

1     program think, that this is a very important year for  
2     alternative fuel vehicles, and we would encourage DOE  
3     to work in any possible way, dedicate any possible  
4     staff, and engage in all of these partnerships to work  
5     with Ford to make sure these vehicles get sold.

6                     Thank you.

7                     MR. GROSS: Thanks, Mr. Byerman.

8                     Our next speaker is Mr. James Peeples.

9                     MR. PEEPLES: Thank you, Mr. Chairman,  
10    members of the panel. I appreciate the opportunity to  
11    be here today on behalf of the Fats and Proteins  
12    Research Foundation and having the privilege after  
13    lunch here to follow some very eloquent speakers with  
14    whom I generally agree, but would like to make a few  
15    comments on behalf of the Fats and Proteins Research  
16    Foundation with specific regard to the programs that  
17    are under consideration before DOE, with specific  
18    regard to biodiesel.

19                    I've been involved in motor fuels and  
20    motor fuel policy development, alternative fuels, and  
21    so forth for many years. Most recently I've been  
22    involved in helping to advance the commercialization  
23    of biodiesel, the major industry group for which is  
24    the National Biodiesel Board, which came into being  
25    about three weeks before the passage of EPLAct, which

1 kind of gives you a sense of just how young the  
2 biodiesel industry is in the United States, when the  
3 farmers of this country made the wise decision, in my  
4 opinion, to invest what is now over \$10 million in the  
5 development of biodiesel here in the United States.

6                   The Fats and Proteins Research Foundation  
7 is a group that was founded in 1962, and in this  
8 regard is very much supportive of and has helped to  
9 fund development of biodiesel from mixed feedstocks,  
10 including waste vegetable oils, rendered animal fats,  
11 and other products that ultimately will help reduce  
12 the cost of biodiesel as a finished product.

13                   I heard a couple of comments referring  
14 back to the last major energy crisis that this country  
15 had, which was in the mid-'70s, out of which the U.S.  
16 fuel ethanol industry evolved, and a whole array of  
17 incentives was established to get it going and off the  
18 dime and participating in the nation's fuel mix.

19                   Back in those days, to manufacture a  
20 gallon of ethanol from corn or any other agricultural  
21 feedstocks was in excess of \$3 a gallon. Today, some  
22 20 years later, the cost of making ethanol has dropped  
23 by some two-thirds and may, in fact, drop further  
24 through the support on the research and development  
25 side of DOE of the use of other feedstocks to further

1     reduce, again, the cost of fuel ethanol.

2                   We believe something very similar to this  
3     could happen in the case of biodiesel, given  
4     sufficient time. The U.S. petroleum industry has had  
5     well over 100 years to work the bugs out of its  
  
6     system, and those are still being worked out as we  
7     speak. The biodiesel industry in the United States  
8     has had barely four years. So, again, being the new  
  
9     kid on the block, there's much yet to be done.

10                  We believe that ultimately the current  
11     finished cost of biodiesel will drop at a similar rate  
12     based upon the support of the National Biodiesel  
  
13     Board, Fats and Proteins Research Foundation, the  
14     Department of Energy, and the National Renewable  
15     Energy Lab that is extending such substantial  
  
16     resources to bring this result about.

17                  Since 1992, when EPAct was passed and the  
18     biodiesel industry for all intents and purposes came  
19     into being in the United States, we have now four  
  
20     producers of biodiesel either in the development  
21     process or actually making biodiesel for commercial  
22     sale. I won't get into the details of, you know, what  
  
23     they're doing and how they're doing it, but several of  
24     them are represented here today, and so I'll defer to  
25     them.

1                   But we've had several major regulatory  
2   successes, including in the case of Twin Rivers  
3   Technologies, whom I believe you heard from earlier  
4   today, they received an official certification for  
5   their urban bus retrofit rebuild kit, which includes  
6   the use of biodiesel and a catalyst for the  
7   retrofitting of pre-1993 buses. That is a major step  
8   forward in terms of the recognition of biodiesel as a  
9   fuel component.

10                  EPA just last month has accepted the use  
11   of mixed biodiesel feedstocks as a fuel that will be  
12   tested under fuel and fuel additive health effects  
13   testing program, which I've referred to in my written  
14   testimony. This will obviate the need for testing  
15   different kinds of biodiesel, whether it's derived  
16   from animal fats or soy oil or whatever it is. It  
17   will all be tested as one product, which is a wise  
18   judgment in the opinion of the FPRF because it would  
19   help reduce the cost of that testing program which is  
20   essential for all fuel and fuel additives that are  
21   being introduced into the marketplace or are already  
22   in the motor fuels stream.

23                  One of the other initiatives that the  
24   industry is working on now in conjunction with EPA is  
25   to obtain a substantially similar determination from



1 the agency that it can be used in blends of up to 20  
2 percent biodiesel as a legal fuel without any further  
3 restriction. That's been an ongoing process was EPA  
4 grapples with even defining what diesel is under the  
5 Clean Air Act, much less biodiesel.

6 So the industry has been working very  
7 closely with EPA on that, and we anticipate a positive  
8 outcome.

9 I have been very closely involved with the  
10 biodiesel industry and working through and in  
11 cooperation with the American Society for Testing and  
12 Materials to get a uniform motor fuel spec.

13 established for biodiesel which would include all the  
14 feedstocks that we envisioned that biodiesel could be  
15 manufactured from, and this is working in close  
16 cooperation with the petroleum industry, with other  
17 stakeholders, the end users of the product, and so  
18 forth to insure that the highest quality fuel is made  
19 available for the marketplace.

20 This is an ongoing process. If any of you  
21 have had any experience with the American Society for  
22 Testing and Materials, it takes many years to get a  
23 specification developed. In the case of ethanol, it  
24 took over a decade to get a fuel spec. approved  
25 through ASTM, even though a lot of ethanol was being

1     sold in the United States in the form of gasohol, but  
2     this process is ongoing, and the results that we're  
3     seeing are very positive, and we anticipate being able  
4     to get a uniform fuel specification that embraces all  
5     mixtures of biodiesel approved through ASTM in the  
6     very near future.

7                 In addition to that, the state regulators  
8     whose job it is to insure that motor fuel quality is  
9     assured from the standpoint of protecting consumers --  
10    we are working with them to help develop a definition  
11    of premium diesel. This is a new phenomenon in the  
12    motor fuel marketplace. I don't know if you've seen  
13    the pumps out there where premium diesel has been  
14    labeled, state regulators, not having any laws or  
15    regs. or guidance to determine what premium diesel is.

16                The National Conference on Weights and  
17    Measures, which is their sort of governing body, if  
18    you will, has begun taking steps in cooperation with  
19    us and other stakeholders in the private sector, the  
20    engine manufactures, and so forth, to come up with a  
21    viable definition of premium diesel, and we believe in  
22    that definition that biodiesel, because of its  
23    performance characteristics, its higher C-tane rating,  
24    its excellent lubricity characteristics and fuel  
25    stability, will be a viable candidate for use as a

1 premium diesel fuel component to make it possible for  
2 consumers to get a premium product when they go to buy  
3 it as opposed to taking the chance now on whatever it  
4 is the marketer chooses to call a premium diesel fuel.

5           So we are working very closely with the  
6 National Conference on Weights and Measures on this  
7 through their Premium Diesel Task Force, and this  
8 process is going on a very fast track, and we believe  
9 provides further evidence that biodiesel is doing  
10 everything by the numbers to become an important and  
11 viable motor fuel in both the alternative motor fuel  
12 stream as well as the conventional motor fuel stream.

13           Which brings me to a discussion of B20.  
14 I'm sure you heard earlier today that as of last month  
15 the National Biodiesel Board and a coalition of  
16 stakeholders, including the Fats and Proteins Research  
17 Foundation, submitted a petition to the Department of  
18 Energy for a designation of B20 or 20 volume percent  
19 of biodiesel as an alternative fuel under the EPA's  
20 definitions.

21           We were disappointed, frankly, that in  
22 March when those definitions were published in the  
23 Federal Register that B20 was not among them. We  
24 believe that the extensive work that has gone into  
25 this petition provides DOE a substantial justification

1     for going back and now defining B20 as an alternative  
2     fuel by virtue of the legislative history of EPCA and  
3     what would be sound public policy, in addition to the  
4     fact that it would allow with some additional  
5     flexibility, which I'm going to discuss here in a  
6     minute, in your upcoming regulations to include the  
7     fullest possible use of biodiesel in compression  
8     ignition engines, which as we know are much more  
9     efficient engine already existing in the market, in  
10    widespread use both in private and public fleets, that  
11    could allow eventually further fuel displacement to  
12    help in some small measure meet the ultimate  
13    displacement goals of EPCA.

14               As I say, the FPRF has endorsed this B20  
15    petition. We are a member of the coalition, and we  
16    would urge DOE to take this into consideration and act  
17    immediately on this petition. Give us at least some  
18    guidance as to what else we need to do to make this  
19    demonstration.

20               But we believe for legal, legislative, and  
21    good, valid public policy reasons that B20 should be  
22    defined as an alternative fuel.

23               That leads me to a discussion of  
24    flexibility. A year and a half ago DOE held a series  
25    of hearings on the alternative fuel definitions. At

1     that time I also spoke on behalf of FPRF and urged DOE  
2     at the time to consider looking at other more flexible  
3     ways of approaching this whole regulatory package, as  
4     opposed to the top-down, command and control, sort of  
5     non-market based, if you will, approach to meeting  
6     these replacement fuel goals.

7                 Well, a year and a half later, it seems  
8     like we're almost at the same stage in that process,  
9     and you all have gone through this is the third, I  
10    guess, day of hearings on this subject, you know, the  
11    first two of which, I understand, were somewhat  
12    grueling and fairly monotonous in terms of the message  
13    you were hearing about, you know, getting away from  
14    command and control regulatory efforts.

15                We believe, as the Fats and Proteins  
16    Research Foundation, that the DOE should take steps to  
17    broaden the kinds of vehicles and engines and so forth  
18    that are affected by this regulation to include the  
19    heavy duty engine category, which are primarily  
20    powered by compression ignition engines, and bring in  
21    the whole diesel fuel component of this, which, of  
22    course, would make it very attractive to bring in  
23    biodiesel whether in B20 or premium diesel or neat  
24    biodiesel, depending upon the application.

25                This would not require a major

1     infrastructure redesign. The fuel is completely  
2     miscible in diesel. It performs with few, if any,  
3     changes in the actual mechanics of that diesel engine,  
4     and with several million miles of demonstration that  
5     the NBV and other groups have funded over the years,  
6     has shown that the fuel performs as good, if not  
7     better than, conventional petroleum based diesel.

8                 So we think there are valid reasons to  
9     broaden the scope of this regulation to include these  
10    other fuels, not just limit it to spark ignition  
11    engines and gasoline replacements. Let's look at  
12    diesel fuel replacements as well.

13                And then at the same time, develop a  
14    system by which, as others have spoken to earlier, a  
15    way of banking, buying, and selling, trading credits  
16    so that if a fleet wants to go to a biodiesel in  
17    powering its buses or heavy duty trucks or whatever,  
18    that if it exceeded its requirements in terms of  
19    replacing gallons of fuel, that they could take and  
20    trade those credits with someone else, some other  
21    entity that may not be similarly situated.

22                We think that, you know, going through a  
23    more flexible approach of that type, which has been  
24    demonstrated amply in other EPA and DOE rulemakings,  
25    offers a real promise of if not meeting the fuel

1 replacement targets in the next fuel years, will at  
2 least take us closer to that point.

3 And in that regard and in conclusion, I  
4 would like to urge DOE to take advantage of a tool in  
5 federal law that already exists to maybe break through  
6 this barrier that we have to getting to the point  
7 where everybody can work off the same page here, and  
8 that would be the provisions of the Regulatory  
9 Negotiation Act, which would allow DOE to convene a  
10 meeting of all the different stakeholders with a set  
11 agenda that the DOE and these stakeholders would  
12 design to sit around a table, lock the door, bring in  
13 pizza, feed folks until the process is done, to devise  
14 and get an agreement to from all parties involved a  
15 procedure by which alternative fuel laws, policies,  
16 and so forth can be designed and implemented.

17 I, as a participant in the regulatory  
18 negotiation that took place under EPA's auspices to  
19 get the federal reformulated gasoline program  
20 underway, which was a multi-billion dollar reg.-neg.  
21 process, it took us seven months to do it, but in the  
22 end there was an agreement signed. Everybody adhered  
23 to it, and now we have, some four years later, we have  
24 an RFV program that nobody thinks twice about anymore.  
25 I think the same thing is possible to get

1 over this hump that we seem to be talking about here  
2 in terms of getting alternative fuels and alternative  
3 fuel vehicles in the mainstream of the marketplace.

4 I would encourage DOE to consider that,  
5 particularly if we're talking about a January 1, '98,  
6 rulemaking looking ahead to the implementation  
7 schedule. If we got started on something like this  
8 now, we would have, you know, 1997 to meet and come to  
9 an agreement, and then promulgate a formal rule on  
10 that. I think that's a fairly doable schedule, and I  
11 think if the folks that you've heard here today are  
12 committed to such a process, it's there in federal  
13 law. It's a proven mechanism to get this process, a  
14 very complex regulation of this nature, through.

15 And, again, if it won't meet ultimately  
16 the goals of fuel replacement in the next decade,  
17 it'll get us on the right track.

18 And again, I appreciate the opportunity to  
19 speak here on behalf of the FPRF. We will be  
20 commenting in more detail before the November 5th  
21 deadline on this rulemaking, and we look forward to  
22 working with you in the success of this program.

23 MR. GROSS: Thank you very much.

24 Questions?

25 MR. McARDLE: I have just two quick



1     questions.  The first one is you mentioned the EPA's  
2     urban bus rebuild --

3                 MR. PEEPLES:  Retrofit rebuild program,  
4     yes.

5                 MR. McARDLE:  Yes, and you said you've got  
6     certification from EPA as a technology that would meet  
7     those rebuild standards for the urban buses.

8                 MR. PEEPLES:  That's correct.

9                 MR. McARDLE:  Is that for B20?

10                MR. PEEPLES:  That is for B20, yes.

11                MR. McARDLE:  Okay.  Is there any specific  
12     technology that has to be required or is that just  
13     fuel specific?  Do you happen to know?

14                MR. PEEPLES:  Well, it is fuel specific in  
15     the sense that the fuel that was defined in the  
16     certification petition is a soil oil based biodiesel.

17                MR. McARDLE:  Okay.

18                MR. PEEPLES:  But that was strictly  
19     limited to that one petition.  What EPA has certified  
20     is not in any way to be construed as an EPA definition  
21     of biodiesel.

22                MR. McARDLE:  Right.  That leads to my  
23     next question on the KSTM fuel spec. you're working  
24     on.  Is that also for B20 or is that for various  
25     blends of biodiesel with diesel?

1                   MR. PEEPLES: Well, the intent behind the  
2 fuel specification that's being developed is to make  
3 sure we have an agreed upon, defined specification  
4 regardless of the biodiesel's feedstock, and before  
5 biodiesel for use in blends or in --

6                   MR. McARDLE: Okay. I see. So you're  
7 specifying the biodiesel. Then you blend it in  
8 whatever percentages.

9                   MR. PEEPLES: That's correct, and that  
10 would be consistent with how ASTM has addressed  
11 ethanol before. It's just a fuel ethanol  
12 specification, and then whatever blend percentage is  
13 involved is secondary. They did the same thing in the  
14 last three or four years with NTBE as well.

15                  MR. McARDLE: Okay.

16                  MR. PEEPLES: So it's just for that fuel  
17 component.

18                  MS. LEWIS: Has EPA classified this as a  
19 clean fuel or are you in the process of dealing with  
20 EPA, the B20?

21                  MR. PEEPLES: I'm not exactly sure what  
22 you mean. Under the Clean Fuel Vehicle Program?

23                  MS. LEWIS: Yes. EPA has the clean fuel.  
24 Some of their fuels are also under our definition of  
25 alternative fuel.

1 MR. PEEPLES: That's right.

2 MS. LEWIS: But B20 I'm not sure about.  
3 So I want to know whether EPA has classified B20, this  
4 particular blend, as a clean fuel under the program  
5 under which it runs.

6 MR. PEEPLES: To my knowledge, that has  
7 not occurred.

8 MS. LEWIS: Have you requested EPA to  
9 classify your fuel as a clean fuel?

10 MR. PEEPLES: FPRF has not, and quite  
11 honestly at this moment, I'm not specifically certain  
12 as to what the industry's position is on that.  
  
13 There's still a lot of emissions testing that's being  
14 done. The industry has put a considerable amount of  
15 resources into evaluating the emissions performance of  
  
16 biodiesel in all blend levels. A lot of that research  
17 is still ongoing, and I think that subsequent speakers  
18 might be more in a position to address the specifics  
19 of that question.

20 MS. LEWIS: This is sort of like a follow-  
21 up to that. Our program, as we have it set up,  
22 according to the legislation, we deal primarily with  
23 light duty vehicles.

24 MR. PEEPLES: That's right.

25 MS. LEWIS: And the diesel fuel, you know

1     what diesel fuels are being used. Now, you have  
2     indicated that perhaps we could bring in these medium  
3     and heavy duty vehicles under some type of innovative  
4     scheme. Can you elaborate on how we could possibly do  
5     that, say, under the scenario if we go to a  
6     rulemaking, which we are discussing today?

7                 MR. PEEPLES: Well, again, I think prior  
8     to a rulemaking perhaps a reg.-neg. process to, you  
9     know, get something that was agreed upon by government  
10    and industry would be an interim step and perhaps  
11    would expedite a rulemaking when and if that were to  
12    occur.

13                But I think that my reading anyway of  
14    Section 502 and following is that one of the major  
15    objectives of EPCA under this section generally is  
16    the replacement of petroleum fuels, and what is in  
17    that section is fairly open-ended as to how that might  
18    be done, as opposed to the earlier sections which have  
19    a much more formalistic, you know, staged introduction  
20    of the vehicles, if not the fuels, for the different  
21    categories of fleet operator.

22                It's our proposal that DOE strongly  
23    consider going under Section 502 with the more  
24    flexible approach, looking at the broad range of fuels  
25    and the means by which those fuels could be used to

1     displace all petroleum products that are used in the  
2     transportation sector.

3                 I believe that's a much more shall we say  
4     flexible and open-ended portion of the law which, in  
5     my opinion, is every bit as valid as the earlier  
6     sections and hopefully would be working in harmony  
7     with those earlier sections, but I believe it does  
8     provide DOE some ample flexibility to not only look at  
9     the light duty end of the program, but also embrace  
10    the heavy duty end of the fleet, as well as other  
11    interests in transportation use, not just on-road type  
12    of vehicles.

13                At this point if we're going to meet or  
14    come close to meeting some of these goal sin 2010 and  
15    later, you know, we're going to have to look at a  
16    whole lot of other fuel displacement objectives out  
17    there, which would include diesel, gasoline, you know,  
18    and so forth.

19                MS. LEWIS: Thank you.

20                MR. GROSS: We're going to have to move  
21    on. Thank you very much, Mr. Peeples.

22                MR. PEEPLES: Thank you.

23                MR. GROSS: Next up is Mr. Len Bower of  
24    the American Petroleum Institute.

25                MR. BOWER: Thank you, Mr. Chairman.

1                   I am the Director of Policy Analysis and  
2     Strategic Planning at the American Petroleum  
3     Institute. API's more than 350 member companies are  
4     engaged in all aspects of the petroleum business, from  
5     exploration and production of crude oil, the  
6     manufacture and sale of finished products, including,  
7     of course, transportation fuels.

8                   Thus, API has a keen interest in the  
9     Department of Energy's advanced notice of proposed  
10    rulemaking concerning private and local government  
11    alternative fuel fleet vehicle mandates.

12                  In this proceeding, the Department has  
13    asked whether an AVF acquisition mandate for private  
14    and municipal fleets is necessary. The proposed  
15    mandate that we are talking about is linked to a  
16    target of 30 percent replacement of petroleum based  
17    motor fuel by the year 2010 with replacement fuel. By  
18    statute, at least half of these replacement fuels are  
19    supposed to be domestically produced.

20                  Since these hearings began three weeks  
21    ago, DOE has heard the testimony of representatives of  
22    state and local governments, fleet operators, and fuel  
23    providers. Many have told the Department it should  
24    not proceed with mandates for AVF acquisition by  
25    private and local government fleets. API concurs in

1     this view. We also believe fleet mandates should not  
2     be implemented under either the early or regular  
3     rulemaking provisions of the Energy Policy Act,  
4     Section 507.

5             Further, we recommend that DOE use its  
6     authority to eliminate EPCAct's unachievable  
7     replacement fuel goal.

8             API opposes imposition of mandates or  
9     subsidies for AVFs and alternative fuels. When  
10    alternatives can meet the needs of consumers at  
11    competitive prices, markets will naturally develop  
12    without government intervention. Therefore, the  
13    replacement fuel target is arbitrary and unnecessary.

14            It is also technically and economically  
15    infeasible to achieve by 2010. For these reasons, DOE  
16    should eliminate the 30 percent replacement fuel goal  
17    and not implement AVF acquisition mandates.

18            EPCAct's 30 percent replacement fuel goal  
19    is not inflexible. Indeed, the Energy Policy Act  
20    requires DOE to determine the technical and economic  
21    feasibility of achieving the goal and gives DOE the  
22    authority to lower the goal if it is not achievable.

23    This feasibility determination is long overdue and, as  
24    I will discuss later, the first phase which has been  
25    released is so deficient that we believe its results

1     are meaningless.

2                   All credible evidence suggests the true  
3     costs of meeting this goal would be enormous, while  
4     the benefits would be negligible.

5                   In addition to assessing the technical and  
  
6     economic feasibility of the replacement fuel goals,  
7     DOE must consider the impact of the replacement fuel  
8     program on oil imports, the domestic economy, and  
  
9     greenhouse gas emissions. Considering these  
10    additional factors, a national goal of 30 percent  
11    replacement fuel by 2010 is clearly inappropriate.

12                  Meeting the EPAct goal will not eliminate  
  
13    and may not even significantly reduce fuel imports.  
14    Mandates to meet the goal will impose higher  
15    transportation costs and could severely harm our  
  
16    economy, and it is questionable whether increased use  
17    of alternative fuels will reduce greenhouse gas  
18    emissions. I will briefly discuss these points.

19                  First, AVF acquisition by private and  
  
20    municipal fleets is unlikely to significantly decrease  
21    imports of transportation fuels or feedstocks used to  
22    make them. Mandates to encourage greater alternative  
  
23    fuel use could simply lead to importing more of these  
24    fuels. Indeed, the Department's own analysis shows  
25    methanol and a large share of propane will likely be



1 imported if EPAct's replacement fuel goals are ever  
2 met.

3 In any case, U.S. dependence on imported  
4 oil is much less of a problem than is frequently  
5 assumed. Markets have shown a great ability to  
6 allocate supplies and deal with fluctuations, and we  
7 are better able to deal with short-term supply  
8 disruptions than in the 1970s or even when EPAct was  
9 passed in 1992.

10 Our current sources of imported oil are  
11 more varied than they were during the oil problems of  
12 1970s. The strategic reserves of oil around the  
13 world, including our own SPR, provide a buffer in the  
14 event of some unforeseen emergency, and because  
15 alternative fuels likely will be imported from many of  
16 the same places as oil, substituting alternative fuels  
17 for a portion of U.S. transportation fuel will not  
18 necessarily protect the U.S. from disruptions.

19 Second, mandates do not provide economic  
20 benefit. We've heard argument during these hearings  
21 and in other settings to the effect that increasing  
22 use of alternative fuels and AVFs will create jobs,  
23 strengthen the economy, and spur new technology.  
24 While some jobs would be created by expanding  
25 alternative fuels and AVFs, these jobs would come at

1     the expense of lost jobs in traditional automotive,  
2     petroleum, and other industries that supply them.

3             In addition, alternatives are now and may  
4     remain more expensive than conventional fuel vehicle  
5     technologies. These costs will be reflected in higher  
  
6     consumer prices or in taxes needed to provide  
7     government subsidies for AVFs and their fuels.

8             Several witnesses during these hearings  
  
9     have testified about the hardship that the increased  
10    costs from fleet mandates could have on both the  
11    public and private sectors. In these days of tight  
12    budgets, it is imprudent for DOE to impose additional  
  
13    costs on local governments, especially for programs  
14    that may do little or nothing to help the environment,  
15    reduce imports, or spur the economy.

16            These mandates will simply take funding  
17    away from important local programs. Mandates also  
18    will drain investment capital away from affected  
19    businesses, thereby slowing true economic growth.

20            The mandates, indeed, could put these  
21    businesses at a disadvantage compared with others,  
22    including overseas competitors.

23            And finally, there may be little or no  
24    reduction in greenhouse gas emissions through greater  
25    use of alternative fuels based on a total fuel cycle

1 emissions analysis as required by EPO Act. We must  
2 remember that the likely alternatives are carbon based  
3 fuels.

4 As I've mentioned, the Energy Policy Act  
5 requires DOE to examine the technical and economic  
6 feasibility of the replacement fuel goals. The  
7 Department made the first phase of the evaluation  
8 available early this year, over two years later than  
9 required.

10 This study reported that in 2010  
11 alternative fuel use could be sustainable and even  
12 beneficial at the 30 percent goal level. DOE reached  
13 its conclusions by using a complex modeling tool which  
14 is not well matched to the problem and by using highly  
15 unrealistic assumptions.

16 In contrast, API considers the 30 percent  
17 replacement fuel goal infeasible and economically  
18 detrimental.

19 The rest of my substantive remarks will  
20 focus briefly on the inadequacies of the DOE study.

21 DOE used a general equilibrium model  
22 called the alternative fuel trade model to determine  
23 fuel use decisions in the U.S. The model assumes that  
24 some of the alternative fuels are almost competitive  
25 with gasoline.

1           A fundamental problem is that the model  
2     has no time component. Consequently, results labeled  
3     as applying to 2010 are, in fact, arbitrary and have  
4     no connection with a meaningful time period.

5           Moreover, the DOE study did not consider  
6     the policies or costs required for the transition to  
7     the use of 30 percent alternative transportation fuel.  
8     In particular, DOE did not incorporate the huge costs  
9     of the two new fuel distribution networks that would  
10    be required to supply the AVFs that DOE projected  
11    could be on the road in 2010.

12           Another major mistake is assuming that  
13    when alternative fuel vehicles are almost as good as  
14    conventional gasoline powered vehicles, they will take  
15    substantial market share away from today's dominant  
16    technology, but in fact, markets don't change that  
17    way.

18           Successfully displacing an established  
19    product with which consumers are generally satisfied  
20    requires a new technology that is substantially  
21    superior, not just as good or close, but something  
22    that's better.

23           Alternative fuel vehicles generally are  
24    not competitive now. When they will be, if ever, is  
25    simply not known.

1                   Finally, DOE assumed no increased  
2     alternative fuel use outside of the U.S., which is a  
3     strange assumption because the study assumed that  
4     alternative fuels would be priced competitive with  
5     conventional fuels. That odd assumption allowed DOE  
6     to predict lower alternative fuel prices than would  
7     otherwise be the case and making them appear more  
8     attractive in the modeling results.

9                   Using their model and assumptions, DOE  
10    came up with some incredible results. For example, to  
11    take one, for some cases DOE concluded nearly 100  
12    million vehicles capable of operating on alternative  
13    fuel would be available by 2010. Assuming that there  
14    will be approximately 230 million vehicles in 2010,  
15    that translates to more than 40 percent of all  
16    vehicles on the road.

17                  Under best case assumptions, DOE assumed  
18    only about five million vehicles would result from  
19    mandates. This means that more than 90 million AVFs,  
20    or almost all new cars and light trucks sold between  
21    now and 2010, would need to be purchased by someone  
22    voluntarily.

23                  Clearly, large-scale, voluntary changeover  
24    to AVFs, such as talking about getting as many as 90  
25    million AVFs purchased voluntarily between now and

1     2010, will not occur unless there are cost and  
2     performance benefits, and there is no evidence that  
3     such benefits will occur in the foreseeable future.  
4     Yet DOE assumed a massive rush to AVFs could take less  
5     in less than 15 years even though only a fraction of  
6     a percent of the current vehicle fleet can operate on  
7     alternative fuels: AVF problems were overlooked as  
8     well. High fueling costs, performance limitations,  
9     and almost no offerings from manufactures.

10                 Given these facts, you don't really need  
11     to be an economist or a technical expert to seriously  
12     question such results.

13                 In summary, DOE should not mandate the  
14     private and local government fleets acquire AVFs under  
15     either the early or regular rulemaking provisions of  
16     the Energy Policy Act. DOE should, in fact, reject  
17     the Energy Policy Act's 30 percent replacement fuel  
18     goal, and DOE should recognize that its analytical  
19     work to date is based on an unrealistic  
20     characterization of the competitiveness of alternative  
21     fuels which leads to conclusions that are not  
22     defensible.

23                 Thank you.

24                 MR. GROSS: You're welcome. Thank you.

25                 MR. McARDLE: Yes. I'd just like to

1     respond to your comments regarding our Section 502(b)  
2     report or technical report 14. Most people know it's  
3     one and the same.

4                 I found many of your comments that you've  
5     made we've taken into consideration. I agree with  
6     some of your comments, although not all of them,  
7     regarding criticisms regarding the study, but I'd like  
8     to point out that the Department right now is in the  
9     midst of conducting what's called its transitional  
10    analysis to look at how we got from 1995 to 2010 and  
11    what are the transitional costs involved in moving  
12    from today's system, where you have a transportation  
13    system dependent on gasoline, to one where a larger  
14    percentage of alternative fuels are integrated into  
15    that mix.

16                So we're attempting to address your  
17    concerns and evaluate the cost of moving from here in  
18    1995 to the year 2010, and hopefully we would like to  
19    have some results on that modeling effort by the end  
20    of this calendar year or early next year.

21                I just wanted to clarify that.

22                MR. BOWER: We certainly look forward to  
23    seeing those.

24                MR. RODGERS: Thank you for your comments.

25                I'm reading here in your written statement

1     that you say, "AVF acquisition by private and  
2     municipal fleets is unlikely to significantly decrease  
3     imports of transportation fuels," and then you go on  
4     to talk about our study which shows a significant  
5     amount of imported methanol and propane.

6                 So my question is: would AVF acquisition  
7     by private and municipal fleets contribute to  
8     decreased imports of oil?

9                 MR. BOWER: In all likelihood it would  
10    contribute to some decrease in oil imports. That is  
11    correct, but when you take the context of the total  
12    amount of transportation fuel that's being imported,  
13    the effect would be minuscule.

14                MR. GROSS: Okay. I'd just like to ask  
15    whether you believe that there are any costs, other  
16    than the direct costs associated with the various  
17    fuels, but particularly costs associated with  
18    reformulated gasoline and diesel fuel, such as  
19    environmental costs, such as energy security related  
20    costs, what we're paying for military protection and  
21    so on, that our country or citizens ought to be  
22    concerned about.

23                MR. BOWER: Well, I believe that we have  
24    a set of policies in place that largely have addressed  
25    the concerns that have been raised with the



1 environmental and to the extent there are energy  
2 security concerns with oil. I believe that those are  
3 being addressed by existing policies.

4 MR. GROSS: Such as military policies, for  
5 example?

6 MR. BOWER: No, I wouldn't put military  
7 policy necessarily in that category. I would put the  
8 strategic petroleum reserve in that category.

9 MR. GROSS: All right. Ken.

10 MR. KATZ: Sure. On page 2 of your  
11 testimony you make some statements, and I would like  
12 it if you could provide written back-up information  
13 and support of that before the deadline. The three  
14 statements that I'd like to have back-up on are in the  
15 first paragraph you say, "Meeting the EPAct goal will  
16 not eliminate and may not even significantly reduce  
17 fuel imports." If you have something, you know, I'd  
18 just like to have back-up information.

19 "It's questionable whether increased use  
20 of alternative fuels will reduce greenhouse gas  
21 emissions." That is contrary to what we've been led  
22 to believe.

23 And there's a statement that "job creation  
24 would come at the expense of lost jobs in traditional  
25 automotive, petroleum, and other industries." That

1     also is contrary to other information we have, and I'd  
2     like to see the information that you have related to  
3     that.

4                 Also, in reference to the goal, unless I'm  
5     reading this wrong, and Vivian can verify this, I  
  
6     don't think we can eliminate any goals. We can change  
7     them. We can decrease them or we can push out the  
8     time frame. Instead of 2010 we could make it further.

9     So I don't think we can just say, "We shouldn't have  
10    goals at all," but we can change them.

11                MR. BOWER: Right, and you can essentially  
12    lower the goal to the point where we wouldn't have to  
  
13    have deliberations like this about government policy  
14    to encourage any particular fuel or set of fuels

15                MR. KATZ: And as a follow-up question to  
  
16    a question I asked the guy from the Petroleum  
17    Marketers Association of America, in relation to the  
18    nationwide RFG program we acknowledge that RFG goes a  
19    long way towards decreasing the reliance on oil, and  
  
20    it does replace some oil, and we'd like to know the  
21    feeling of the members of API on the likelihood of a  
22    nationwide RFG in light of the foothold that would  
  
23    have on displacing the imported petroleum.

24                MR. BOWER: We would oppose a nationwide  
25    RFG mandate. First of all, we don't believe the goal

1       that drives it makes sense.

2                       Second, we oppose mandates.

3                       Third, just like other alternative fuels,  
4       RFG involves costs, and it was designed to address a  
5       particular problem in the more serious nonattainment  
6       areas. We believe it's a reasonably cost effective  
7       tool for addressing that problem, but simply imposes  
8       extra costs on other parts of the country that don't  
9       need that.

10                      And finally, I would say that the  
11       Environmental Protection Agency is addressing the  
12       issue of allowing other areas or whether or not to  
13       allow other areas to opt into RFG, and I think that's  
14       the appropriate place for that to be considered.

15                      MR. KATZ: That's fine. I wasn't  
16       suggesting a mandate. I was just wondering if you  
17       thought it was good that more communities would use  
18       RFG because of its petroleum displacement qualities.

19                      MR. BOWER: Well, not for its petroleum  
20       replacement qualities. I mean I think that the  
21       communities that do have nonattainment problems and  
22       are looking at how they're going to come into  
23       attainment the meet the Clean Air Act requirements,  
24       RFG is one of the options that they might look at.

25                      MR. KATZ: Thank you.

1                   MR. GROSS: One more.

2                   MR. RODGERS: Thank you for your time.

3       Just one more question. You were discussing on page  
4       3 about the, and I'll quote, "Successfully displace an  
5       established product with which consumers are generally  
6       satisfied requires a new technology that is  
7       substantially superior."

8                   I guess I just was wondering if there was  
9       some data that you have that would indicate if this is  
10      peculiar to transportation and to oil because my  
11      understanding is that consumers are pretty fickle.  
12      You come out with a product that meets their needs.  
13      They'll jump shift and go to another product. I'm  
14      thinking of the introduction of a generic drug, for  
15      example, to replace a name brand drug, for example.

16                  Anyway, if there's any data that you have.

17                  MR. BOWER: Okay, but there's a real price  
18      advantage for the consumer there.

19                  MR. RODGERS: I see. So it's not the --

20                  MR. BOWER: And I would say it's vastly  
21      superior.

22                  MR. RODGERS: So it's not the technology  
23      as such. It's just a --

24                  MR. BOWER: A whole combination of things  
25      that go with the product. It could be attributes.

1 MR. RODGERS: I see.

2 MR. BOWER: And people might even pay more  
3 for a superior transportation product that ran on  
4 alternative fuel if it was, indeed, a superior  
5 transportation product, or I would say that the  
6 consumer might go to the alternative fuel if it was  
7 cheaper and offered an advantage there.

8 But without some advantage to the  
9 consumer, you know, what's to get them excited about  
10 it?

11 MR. RODGERS: Okay, okay. I think I see  
12 what you're saying now.

13 In many ways the modeling assumptions that  
14 were used indicate consumers would choose alternative  
15 fuel vehicles is very similar to some of the consumer  
16 behavior that makes consumers choose, say, a more  
17 premium gasoline, a perceived benefit even though  
18 their vehicle may not actually need that premium  
19 gasoline.

20 Thank you.

21 MR. GROSS: Okay. Thanks again, Mr.  
22 Bower.

23 MR. BOWER: Okay. Thank you.

24 MR. GROSS: Our next speaker is Mr. Paul  
25 Kerkhoven, American Highway Users Alliance.

1 MR. KERKHOVEN: Good afternoon, Mr.

2 Chairman.

3 MR. GROSS: Good afternoon.

4 MR. KERKHOVEN: I'm Paul Kerkhoven. I'm  
5 Manager of Environmental Affairs with the American  
6 Highway Users Alliance in Washington, and I appreciate  
7 the opportunity to participate in today's hearing.

8 The American Highway Users Alliance is a  
9 national coalition of businesses and individuals who  
10 promote and defend the role of motor vehicle  
11 transportation and individual freedom of choice. The  
12 Highway Users, which was formed to get the farmers out  
13 of the mud, has been serving the cause of safe and  
14 efficient transportation for the past 60 years.

15 I come to today's hearing from a slightly  
16 different perspective. The Highway Users support  
17 clean air and energy security efforts. I believe that  
18 alternative transportation fuels could be an important  
19 element of such a program. We oppose, however,  
20 mandating the use of alternative transportation fuels  
21 and the acquisition of alternative fuel vehicles  
22 because of the potential revenue losses to the Highway  
23 Trust Fund will have a dramatic adverse impact on our  
24 ability to pay for badly needed highway improvements  
25 and on the U.S. economy. We can ill afford such

1     losses.

2                   The sole funding for highway construction  
3     and safety programs are the proceeds of motor fuel and  
4     other highway related taxes and excise taxes that  
5     accrue to the Highway Trust Fund. They are based on  
6     a user pays, user benefits concept. The Highway Trust  
7     Fund could expect a significant loss of fuel taxes as  
8     some alternative fuels are not taxed, but others are  
9     taxed at rates that are significantly less than the  
10    current level of gasoline and diesel tax.

11                  The regulation is the latest in the series  
12    of assaults on the Highway Trust Fund whose potential  
13    revenue shortfalls were not considered during EPAct's  
14    legislative deliberations.

15                  Considerable uncertainty about the future  
16    of alternative fuel vehicles remains, and according to  
17    the recent EIA survey, more than 421,000 alternative  
18    fuel vehicles are expected to be used in 1996. Your  
19    recent report estimates that the number of alternative  
20    fuel vehicles by 2010 will be 95 million units or 41  
21    percent of all vehicle sales.

22                  A recent CRS report estimates that by 2010  
23    there will be about 2.6 million alternative fuel  
24    vehicles mandated by EPAct. The CRS does not believe,  
25    however, that electric vehicles will be viable, and

1 according to another EIA report, by 2015 total sales  
2 of alternative fuel vehicles will account for  
3 approximately 1.7 million units or 9.7 percent of all  
4 vehicle sales in 2015.

5 A little history on the Highway Trust  
6 Fund. The Highway Trust Fund was established by the  
7 Federal Highway Act of 1956 and the Highway Revenue  
8 Act of 1956 as a self-supporting funding mechanism to  
9 provide needed revenues to help build and maintain the  
10 945,000 mile federal highway system, including the  
11 approximately 45,000 mile interstate highway system.

12 Since '56, only those who use the nation's  
13 roads and bridges pay into the trust fund, and those  
14 highway user fees are spent to repair, construct, and  
15 rehabilitate roads and bridges.

16 Since 1956, the trust fund has collected  
17 almost \$300 billion, and as of January 1995, has made  
18 available \$290 billion.

19 Today's hearing occurs against the  
20 backdrop of a recent Federal Highway Administration  
21 report showing that the nation's roads and bridges  
22 continue to deteriorate because of serious investment  
23 shortfalls at all levels of government. Today the  
24 federal government takes about \$30 billion annual from  
25 highway users and deposits only 21 billion into the



1 highway account where it can be used for road and  
2 bridge improvements.

3           Of the remainder, three billion goes to  
4 the mass transit account of the Highway Trust Fund,  
5 and six billion goes to the general fund for use in  
6 general government programs, not including highways.  
7 The nation as a whole, including state and local  
8 governments, must invest an average of about \$55  
9 billion annually just to maintain current road and  
10 bridge conditions over the next 20 years, according to  
11 the Federal Highway report.

12           However, we've only invested \$35 billion  
13 annually. Unfortunately highway funds continue to be  
14 diverted to other purposes, and this impairs our  
15 ability to make needed road and bridge repairs. Since  
16 1980, federal highway user fees diverted to non-  
17 highway accounts and exemptions for special fuels have  
18 cost the highway account of the Highway Trust Fund  
19 more than \$56 billion, including 30 billion  
20 distributed to the general fund for non-highway  
21 purposes since 1991.

22           The new proposal could well add to the  
23 critical drain of highway funding and the continued  
24 decline of our nation's transportation structure.

25           Currently there is a disparity in federal

1     taxes on alternative fuels. For example, although  
2     federal gasoline tax is 18.3 cents, CNG is taxed at  
3     4.3 cents per gallon. These taxes go into the general  
4     fund. They do not go into the Highway Trust Fund.

5             Electric vehicles pay no highway taxes at  
6     all, and current policies to promote ethanol from corn  
7     have siphoned off more than \$6 billion of the Federal  
8     Highway Trust Fund revenue since 1978.

9             If we as a nation expect to maintain a  
10    first class highway system, this drain on highway  
11    revenues must stop. According to the CRS, the  
12    gasoline displaced by one million CNG powered vehicles  
13    in the year 2010 is two billion gasoline equivalent  
14    gallons, about 2,000 gallons per vehicle at 24,000  
15    miles per year.

16            Because the CNG does not pay any taxes  
17    into the Highway Trust Fund, the federal highway tax  
18    revenues lost equals \$140 million for every billion  
19    gasoline equivalent gallons displaced by CNG.

20    According to your current report, with 95 million  
21    alternative fuel vehicles, with 17 percent of them  
22    being CNG, the loss to the Highway Trust Fund by the  
23    year 2010 could be \$4.6 billion.

24            I've included in my letter a letter that  
25    I included in previous testimony here from Secretary

1     Pena, the U.S. Transportation Secretary, to Mr.  
2     William D. Fay, President of the American Highway  
3     Users Alliance. Secretary Pena indicates in the  
4     letter that the DOT is willing to work with the  
5     Department of Energy to determine the effects of  
6     proposed alternative fuel transportation programs on  
7     the Highway Trust Fund revenues.

8                 We urge the DOE to actively pursue the  
9     offer made by the Secretary.

10                For every dollar spent on constructing the  
11     interstate system, the nation as a whole has reaped an  
12     economic gain of at least \$6 in benefits, according to  
13     a recent study, and that is just a beginning. There  
14     are additional benefits, such as higher employment  
15     rates and greater economic opportunity that are simply  
16     beyond quantification.

17                Every billion dollars invested in highway  
18     construction generates another 2.9 billion in  
19     additional economic activity, and between 1950 and  
20     1989, one quarter of the nation's productivity  
21     improvement was attributable to the highway network.

22                Federal Highway Administration data also  
23     indicate that every billion dollars spent on highway  
24     construction creates approximately 42,100 jobs, new  
25     jobs.

1                   If the regulation is implemented, all  
2     states, whether or not they have a nonattainment area,  
3     and all highway users will pay the price either in  
4     highway taxes, poorer quality transportation, a slower  
5     economy, and fewer jobs. Ironically, cuts in highway  
6     program funds and poorer roads will lead to more  
7     congestion, which could, in turn, increase pollution  
8     ever more, precisely the problem that this regulation  
9     was supposed to correct.

10                  Traffic congestion in the nation's ten  
11     largest urban areas costs motorists an estimated \$28.6  
12     billion annually in wasted time and motor fuel.

13                  Extra vehicle operating costs for  
14     motorists to drive on sub-par roads have also been  
15     calculated by the Federal Highway Administration. The  
16     tests found that American motorists spent an  
17     additional 21.5 billion in operating costs just  
18     because they were driving on roads that were of poor  
19     or fair condition. This is an average of \$122 per  
20     individual. Now, around the District you know how  
21     they are.

22                  In summary, this proposal will definitely  
23     hurt the roads and highways and bridges that keep  
24     America moving. So long as our highway program relies  
25     on highway users paying the costs of road

1 improvements, all highway users, including those  
2 driving alternative fuel vehicles, must pay their fair  
3 share of the cost.

4 We appreciate your attention to our  
5 concerns.

6 MR. GROSS: Thank you.

7 MR. McARDLE: Real quick, as always. You  
8 in your statement said -- again, we're referencing the  
9 technical report 14 or the 502(b) study --

10 MR. KERKHOVEN: Correct.

11 MR. McARDLE: -- "DOE projects there will  
12 be 95 million AVFs by the year 2010." I just want to  
13 make a point that that was the 502(b) study, and it  
14 was meant to evaluate the technical and economic  
15 feasibility of the ten percent and 30 percent goals,  
16 and those projections are based on certain assumptions  
17 regarding alternative fuel vehicle availability and  
18 also refueling infrastructure availability.

19 So they don't necessarily imply a  
20 projection by the Department saying there will be 95  
21 million AVFs on the road by 2010, but under these  
22 conditions, there will be this many.

23 Now, as Mr. Bower just mentioned, he had  
24 some problems with some of our assumptions there, and  
25 we're going back and looking at those assumptions and

1 going to look at the cost, but, again, that's not a  
2 projection, although you did cite EIA's. That's more  
3 of a projection that --

4 MR. KERKHOVEN: And I cited CRS also.

5 MR. McARDLE: Right, exactly, but I just  
6 wanted to get back to the point that we're not really  
7 -- the Department per se is not projecting 95 million.  
8 Just under those --

9 MR. KERKHOVEN: But even at the lower  
10 estimate from your study, that's five million on the  
11 baseline scenario. That is twice as high as the CRS  
12 and the --

13 MR. McARDLE: You mean the EIA projection  
14 relative to --

15 MR. KERKHOVEN: Under your Study 14.

16 MR. McARDLE: The technical report.

17 MR. KERKHOVEN: Technical report 14,  
18 correct. The baseline level there is five million  
19 vehicles.

20 MR. McARDLE: Right.

21 MR. KERKHOVEN: Which is twice as high  
22 CRS.

23 MR. McARDLE: I believe that was based on  
24 the EPAct fleet requirements --

25 MR. KERKHOVEN: Right.

1                   MR. McARDLE:  -- and also it may have  
2     integrated -- I'm not sure -- but it may have  
3     integrated in the California program as well.

4                   But anyway, let me ask you one other  
5     question regarding -- so I guess your group is  
6     advocating equal tax treatment --

7                   MR. KERKHOVEN:  Correct.

8                   MR. McARDLE:  -- for all and everybody  
9     pays?

10                  MR. KERKHOVEN:  Correct.

11                  MR. McARDLE:  Is that --

12                  MR. KERKHOVEN:  And everybody pays.

13     Ethanol subsidies should go away, and next year, you  
14     know, we have a new highway bill coming up.  There's  
15     a wonderful opportunity to participate in that  
16     program, including the taxation issues.

17                  MR. McARDLE:  Okay.  Thank you.

18                  MR. RODGERS:  I just had a quick question.  
19     You were talking about the amount of funding that goes  
20     into the Highway Trust Fund and the amount that comes  
21     out.

22                  MR. KERKHOVEN:  Correct.

23                  MR. RODGERS:  Your data seems to indicate  
24     that actually the Highway Trust Fund gives away money  
25     to the federal government for purposes other than

1 highways. Did I read that correctly?

2 MR. KERKHOVEN: Right.

3 MR. RODGERS: Okay. That's different than  
4 what I had heard from other sources or read, and I  
5 guess I would just be interested in some data because  
6 I thought that the general fund with the road projects  
7 and building bridges, et cetera, actually that more  
8 was spent by the federal government on highway and  
9 related spending than came into the trust fund.

10 MR. KERKHOVEN: Well, of course, I will  
11 answer your questions, but that's why we had the whole  
12 vote last year in the Congress on taking the Highway  
13 Trust Funds off budget so that there would definitely  
14 be accountability on that part of it.

15 MR. RODGERS: Thank you.

16 MR. KERKHOVEN: Thank you very much.

17 MR. GROSS: Thank you, Mr. Kerkhoven.

18 Our next speaker is Mr. Frederick Hiller.

19 MR. HILLER: Thank you.

20 Frederick Hiller from Arlington County.

21 I'm the fleet manager and Division Chief for all of  
22 our vehicles. My fleet is roughly 870 vehicles, and  
23 I refuel another 200 vehicles for the School Board.

24 I'm a relatively small fleet when we talk  
25 about the larger fleets in the area, but we do



1 represent a \$27 million investment in that fleet.

2 I have a replacement value of my fleet  
3 each year that is an appropriated fund that affects  
4 the taxes to our citizens in Arlington, and any  
5 increase that I have affects the rate that they're  
6 going to be paying.

7 Currently for FY '98, we have a \$3 million  
8 replacement value for our fleet. That reflects 119  
9 vehicles, of which of that several are Police  
10 Department vehicles that are exempt from the alternate  
11 fuels, but that leaves me between the rock and the  
12 hard place.

13 And on behalf of Arlington County, I would  
14 like to thank the Department of Energy for allowing me  
15 to express my concerns regarding the mandates of  
16 private and local government fleets to purchase  
17 alternatively fueled vehicles.

18 Arlington County supports the increased  
19 use of alternate fuels as a means to reduce our  
20 dependence on foreign oil, as well as to protect our  
21 environment. However, in light of the fiscal  
22 constraints imposed on local governments, the decision  
23 to purchase alternate fuel vehicles imposed on local  
24 governments is a decision that must be a sound  
25 business decision, not a mandate by Department of

1     Energy.

2                   Arlington County is currently using one  
3     alternate fuel as a compressed natural gas, and with  
4     the help of DOE and a grant plans to expand the AVF  
5     program to include propane and electrically fueled  
6     vehicles.

7                   However, without the grant assistance, the  
8     cost of converting and purchasing the OEM vehicles is  
9     too expensive to make a sound business decision.

10                  Arlington is working closely with other  
11     municipalities, the Washington fleet administrators,  
12     the Council of Governments, the District of Columbia,  
13     the National Association of Fleet Administrators, and  
14     the private sector, to help develop the refueling  
15     infrastructure.

16                  Unfortunately this infrastructure, a  
17     primary component of the equation, is not in place and  
18     most likely will not be in place by 1999. Even though  
19     we have a CNG refueling site, it's at the south end of  
20     the county. We're only 27 square miles, but it still  
21     is an inconvenience for fleets with our vehicles that  
22     only have a five gallon capacity for compressed  
23     natural gas to make it down to the south end of the  
24     county when they're operating up in the north side of  
25     the county.

1                   In addition, the initial increased  
2     expenses of alternatively fueled vehicles, the cost of  
3     compressed natural gas refueling site between a  
4     quarter of a million and a million dollars, and other  
5     financial concerns is lacking in the marketplace for  
6     our vehicles, and when it comes time for disposal,  
7     severely reduces our salvage value substantially.

8                   These expenses are not compatible with the  
9     limited resources available to local governments and  
10    the private fleets. The original equipment  
11    manufacturers are working in the right direction, but  
12    currently their production quantities are too low and  
13    their price tags too high for either local governments  
14    or private fleets to make the purchase of an AVF a  
15    sound economic decision.

16                  Once again, we're faced with Ford Motor  
17    Company having the only alternatively fueled vehicle  
18    that's a dedicated vehicle, as the Crown Victoria. We  
19    really can't have our one-man vehicles or one-person  
20    vehicles, let me say, operating as our inspectors in  
21    a Crown Victoria. So we have to use an administrative  
22    vehicle that's less than that.

23                  That brings us down to the Ford Contour,  
24    which is a bi-fuel vehicle, and we've purchased five  
25    of them and bringing them in, but once again, we have

1 to bring them into our shop and add our meters on them  
2 so we can look at how many hours are we operating on  
3 the compressed natural gas, the alternative fuel, and  
4 how many hours are we operating on regular gasoline.

5 Arlington County, along with other local  
6 municipalities, is not ready to endorse the Department  
7 of Energy's proposed mandates, but we recommend and  
8 encourage DOE to continue the incentive program.

9 Arlington County could not have initiated an  
10 alternative fuel vehicle demonstration program without  
11 a DOE grant and the help of Washington Gas.

12 We support the relaxation of some of the  
13 administrative strings attached to the grant program,  
14 to simplify the reporting the requirements which have  
15 become a real nightmare to comply with. Once again,  
16 the daily trip ticket, it's gone by the wayside, and  
17 we would rather use something else that we have in the  
18 system that can bring an automated refueling  
19 information on board and produce that on a monthly  
20 basis rather than a daily trip ticket.

21 We invite you to visit our fleet, and once  
22 again, I would like to thank you for hearing our  
23 concerns.

24 Do you have any questions?

25 MR. GROSS: Thank you.

1                   We'll go this way first.

2                   MS. LEWIS: No.

3                   MR. KATZ: Yes.

4                   MR. GROSS: All right.

5                   MR. KATZ: One comment, then a question.

6                   Mr. Hiller and I share something in common  
7 besides the fact that we wear glasses and we're white  
8 men. We also had our pictures in Utility Fleet  
9 Management. So I can give you a signed copy if you  
10 wish.

11                   (Laughter.)

12                   MR. KATZ: But the real question is you  
13 mentioned the Contours that operate on CNG. Are they  
14 in service now?

15                   MR. HILLER: No, they're expected any day.

16                   MR. KATZ: Okay.

17                   MR. HILLER: As a matter of fact, they've  
18 been produced and built, but they haven't been  
19 delivered yet.

20                   MR. KATZ: Okay, and you will meter how  
21 much of the time they operate on CNG and how much of  
22 the time they operate on gasoline?

23                   MR. HILLER: I'm going to have to install  
24 two-hour meters, one that will operate when it's in  
25 the gasoline fuel and one when it's in the gaseous

1     fuel, CNG.

2                   MR. KATZ:  Okay.  Is it possible at some  
3     point in time to get that information?

4                   MR. HILLER:  Oh, absolutely.

5                   MR. KATZ:  That would be really  
  
6     interesting to know how a local fleet -- how much of  
7     the time is being spent, given your constraints with  
8     the station being at the southern end of the county.

9                   MR. HILLER:  I'm currently driving one of  
10    those Ford Crown Victorias, but we have converted it  
11    to run on gasoline and compressed natural gas.  The  
12    two tanks that take up the major portion of the trunk  
  
13    give me about 100 miles of operation, and I hope that  
14    the Contours, being a smaller engine and operation,  
15    will be able to give us about 50 to 60 miles of  
  
16    operation.  We'll see how it works out.

17                   But on all of our vehicles, we have the  
18    hour meters so that of the 28 vehicles that we have in  
19    the fleet that are operating on compressed natural  
  
20    gas, we'll be able to give you that information.

21                   MR. KATZ:  Great.  That would be very  
22    helpful to know how a county fleet is operating.

23                   Thank you.

24                   MR. HILLER:  We just need your grants to  
25    keep coming.

1 (Laughter.)

2 MR. RODGERS: Thank you for your comment.

3 I know the State of Virginia has  
4 legislation on the books, Representative Pete Geeson,  
5 I guess, for clean fuel vehicles, and I just wondered  
6 if you had some time -- don't go to too much trouble  
7 -- but to submit some written comments on whether  
8 those incentives in the state program are helping your  
9 local county government buy alternative fuel vehicles.

10 MR. HILLER: If I'm got my head screwed on  
11 right, I think he's calling for in that -- it's a  
12 dedicated vehicle for the clean fuel fleet vehicle  
13 program, and currently I only have five vehicles that  
14 meet the criteria of a dedicated vehicle, and now that  
15 Chrysler is no longer producing their van that's  
16 dedicated, I'm back caught between the Clean Air Act  
17 and the Energy Policy Act. If I meet one, I don't  
18 meet the other.

19 MR. RODGERS: On that note, I'm sorry. I  
20 couldn't let that pass. I'm not aware of any  
21 alternative fuel that meets the Clean Air Act  
22 requirement that doesn't also meet the Energy Policy  
23 Act requirement, and I would love to know if there is  
24 such a thing.

25 MR. HILLER: It's required dedicated, and

1 right now with the infrastructure we're on bi-fuel  
2 rather than dedicated, so that I only have five  
3 vehicles that meet the criteria at the present time.

4 MR. RODGERS: So an EPAct vehicle might  
5 not meet the Clean Air Act requirements.

6 MR. HILLER: That's correct.

7 MR. RODGERS: Okay, okay.

8 MR. HILLER: We were talking about fuel,  
9 the cost of fuel. I operate on the high price spread  
10 of gasoline because it does not -- well, let me put it  
11 this way. It gives my fleet the ability once we  
12 service the vehicle under preventative maintenance  
13 service -- I don't see it again for another fuel  
14 related problem, and it spans all of the vehicles,  
15 from the motorcycles on up through the big gasoline  
16 engines that we're running and med. units and that  
17 type of thing.

18 So that I'm spending 71 cents a gallon for  
19 high test gasoline. I am spending 63 cents a gallon  
20 for diesel fuel at the present time, and I'm spending  
21 62 cents for compressed natural gas, and the quoted  
22 price for the LPG if we get our site brought on line  
23 will be 72.8 cents a gallon.

24 MR. GROSS: Paul.

25 MR. McARDLE: I have one real quick



1 question. I guess it's a dumb question on my part.

2 Those meters you have to monitor whether it's on CNG

3 or gasoline --

4 MR. HILLER: Or gasoline.

5 MR. McARDLE: -- are these meters that are

6 attached to the engine or are they clocks?

7 MR. HILLER: They're clocks.

8 MR. McARDLE: They are clocks?

9 MR. HILLER: They're an hour meter.

10 They're under the hood.

11 MR. McARDLE: Okay. So they don't measure

12 the fuel usage, just the time?

13 MR. HILLER: No, the time that it's

14 operating.

15 MR. McARDLE: Okay.

16 MR. HILLER: I haven't found any gauge

17 that will meter the fuel to give us good, realistic

18 information. So I found that it was best to let's

19 just use time, and we'll equate that to how we're

20 running. We can't break down the odometer to say when

21 it's running on gasoline and when it's running on the

22 alternate fuel. So time is the only thing that we

23 have that we can equate.

24 MR. McARDLE: Okay. Thank you.

25 MR. GROSS: Mr. Hiller, thanks for joining

1       us.

2                   MR. HILLER:  Yes, sir.

3                   MR. GROSS:  Next up is Mr. Douglas Howell  
4       of the Environmental and Energy Study Institute.

5                   MR. HOWELL:  Thank you very much for the  
6       opportunity to be here today.

7                   I am representing the Environmental and  
8       Energy Study Institute.  We are a nonprofit here in  
9       D.C., and we focus on promoting environmentally  
10      sustainable communities.

11                  In the transportation world, our work  
12      includes both looking at transportation systems and  
13      the vehicle itself.  Over the past year, EESI has been  
14      conducting research and analysis of state and local  
15      government incentive programs that promote the use of  
16      clean and efficient vehicles.

17                  We began our work with the intention of  
18      understanding which current programs work best and  
19      why.  Ultimately we seek to identify the most  
20      effective incentive programs and see where they can be  
21      most applicable at the local, state, and ultimately at  
22      the national level.

23                  Most of our work as a result has focused  
24      on alternative fuel programs, AVF programs.  As you  
25      know, they make up the majority of the work being done

1 on clean vehicles across the country. While our work  
2 has focused on incentive programs, we have learned a  
3 great deal about mandates, in particular about the  
4 vehicle purchase mandates which are the subject of  
5 today's hearing.

6 We conducted more than 100 short and long  
7 surveys with state and local level officials,  
8 intending to uncover which incentives are most  
9 effective in getting out clean and efficient vehicles  
10 on the road. We surveyed and interviewed AVF program  
11 administrators whose job it is to implement federal,  
12 state, and local programs. We have learned a great  
13 deal from these officials who are on the front line of  
14 trying to make alternative fuels a reality.

15 We'll share just some of our preliminary  
16 findings. We hope to have for you a full report  
17 before the end of the comment period. At that time we  
18 can lay out all of our findings.

19 What we find initially from the three  
20 results I'd like to talk about today is that we've  
21 gotten validation of some beliefs and assumptions that  
22 have been hanging out there, and those three points  
23 are as follows.

24 First and foremost, what we find when we  
25 talk to state and local officials that are actually

1 implementing the AVF programs, it is their belief  
2 almost uniformly that the mandates are essential for  
3 getting AVFs on the road. They believe that  
4 incentives alone would not be as successful as  
5 mandates, in particular, the vehicle purchase mandates  
6 outlined in EPOA, the Energy Policy Act of '92.

7 AVF administrators often report that they  
8 encounter resistance in the form of foot-dragging to  
9 state and federal purchase requirements. State agency  
10 fuel providers, others often doubt AVF purchasing  
11 requirements will, in fact, take effect, and as a  
12 result, the delay in AVF purchases happen in their  
13 efforts to fulfill the requirements.

14 This brings us to a particular question  
15 that I'd like to address to you. I'm not going to be  
16 looking directly here at what's before you now.

17 When you have a delay of a rulemaking,  
18 when there's a sense that some of the rules are going  
19 to be delayed or pushed back, what all of these AVF  
20 program administrators across the country are telling  
21 us is that has an extreme chilling effect on their  
22 ability to implement EPOA. So your actions today and  
23 tomorrow in looking at the current rule will have a  
24 very, very great impact on their ability to not only  
25 implement the particular rules in front of them, but

1 the current rules they are already dealing with.

2 That really underscores the importance of  
3 federal leadership, and that really comes from you  
4 first and on up.

5 I want to repeat this first point about  
6 the necessity of mandates because if I was to say one  
7 thing that you were to leave with today, it would be  
8 this first point.

9 Those people trying to make AVFs real in  
10 the world from a government perspective believe the  
11 mandates are necessary. This is a very clear  
12 indication from our research.

13 The second point I'd like to go into is  
14 the whole issue of money. State and local programs  
15 use a lot of federal money. In fact, at this point in  
16 our preliminary evidence that we're seeing from our  
17 research, it may make up the majority of money spent  
18 on state and possibly local programs as well.

19 As you know, a lot of it comes from the  
20 oil overcharge monies from the petroleum violation  
21 escrow account. A lot of this money is running low,  
22 in some cases running out, and what we find that's  
23 most important about our research is not just that  
24 it's the federal money, but there are no plans to  
25 replace this money when and if it runs out.

1           What are we going to do? So what will  
2   happen when the federal money runs out? Well, first  
3   of all, we think that EPOA will become very clearly  
4   an unfunded mandate. Currently we don't believe or  
5   think that it needs very clear review if, in fact,  
6   EPOA is an unfunded mandate, given the great amount  
7   of federal funds currently being used to implement the  
8   programs.

9           If it does, if we don't have future  
10   federal sources of money and states are then stuck  
11   with footing the full bill, it will become probably a  
12   prime example of an unfunded mandate.

13           Second, we believe that when and if the  
14   federal money runs out there'll be more reasons to put  
15   drag on compliance.

16           And, third, we believe that there'll be  
17   many delays in trying to implement the requirements of  
18   EPOA and in some cases some of the programs will  
19   become nonexistent.

20           We believe it is critical for you to  
21   develop and find a stable source of revenues for state  
22   and local AVF programs. From our view, that source of  
23   funds to continue funding in the event that the oil  
24   overcharge monies run out would be going to where the  
25   source of the problem comes from, and in our view

1     that's oil.

2                   Yes, we know it is extremely politically  
3     difficult to get additional revenues in terms of user  
4     fees or leverages on oil, but it is the source of the  
5     problem. Polls show that the public generally support  
6     the concept of the polluter pays. In this case oil is  
7     the source of both criteria pollutants, which are not  
8     even included as part of your goals, but also

9     greenhouse gases, as well as the multi-billion dollar  
10    trade deficit and national security risks involved.

11                  From our view it's wholly appropriate that  
12    oil be seen as the source of future revenues when that  
13    time arises.

14                  One bright spot in the area of federal  
15    funding is the whole new program under the Intermodal  
16    Surface Transportation Efficiency Act. That's the  
17    program called CMAQ, the Congestion Mitigation and Air  
18    Quality Program. CMAQ provides one billion per year  
19    from the Highway Trust Fund for congestion mitigation  
20    and clean air projects.

21                  In the first four fiscal years of CMAQ,  
22    more than \$300 million have been spent on AVF programs  
23    across the country. Now over 27 states have been able  
24    to use CMAQ money.

25                  Some states use CMAQ funds to help them

1 meet EPAct vehicle purchase requirements, and  
2 interestingly, what we find from reports from DOT is  
3 that when they look at the CMAQ funds and they're  
4 looking at criteria pollutant benefit per dollar,  
5 those programs, those CMAQ funds being used for AVF  
6 projects are near the top.

7               So it's been a very successful program.  
8 I'd like to talk a little bit now and deter from  
9 what's in front of you to talk about incentives. I  
10 didn't think I could get away from here saying that  
11 we're studying incentives and you always ask, "Well,  
12 what are they?"

13               CMAQ at this point may be the best model.  
14 It gives a general goal: met your SIP requirements --  
15 excuse me -- your state implementation plan  
16 requirements. It isn't overly prescriptive. What we  
17 find with the ICE-T program, CMAQ has the greatest  
18 diversity of projects being used to fulfill that  
19 general goal. So it provides diversity. It's a  
20 stable source of funding. It's created consensus not  
21 uniformly, but with most of the alternative fuel  
22 providers and industries that are out there trying to  
23 help make the AVFs real in the world.

24               So we think that's a pretty good model.  
25 Another model I'd like to mention is a new one being



1     started up in Massachusetts, a proposal now, and when  
2     we're talking about incentives, we're really talking  
3     about cost differential of vehicle purchase at this  
4     point.

5                 Of course, we've got infrastructure issues  
6     that must be addressed, but when you're talking about  
7     looking at cost differential, what they're doing in  
8     Massachusetts, we always think about the cost between  
9     purchase price. Well, they've now incorporated as  
10    incremental costs, costs of maintenance and training  
11    because those they see as related to incremental  
12    costs.

13                That's a very good model for us in that it  
14    takes a broader view of what it really means to level  
15    the playing field.

16                I'd like to take another quick note to  
17    talk about state incentives. Again, if we're talking  
18    about state incentives, we're really looking at trying  
19    to equalize out the purchasing price for current cost  
20    differential. The major programs we see, especially  
21    at the state level, come in three basic forms.

22                You have loan programs. You have matching  
23    funds where they're going to match the cost of the  
24    differential, or you have straight out grants.

25                At least preliminarily, and it seems

1     rather obvious, grants are really the most effective  
2     in terms of getting AVFs out there. The loan programs  
3     that we see amongst the states are moving kind of  
4     slowly, and some of the grant programs that are doing  
5     a direct buy-down of the cost differential have really  
6     been the most effective from our point of view.

7             My third and final point is something you  
8     know well: very little tracking of alternative fuels.

9     Many states and local governments do not know how much  
10    alternative fuel is actually being used by their  
11    alternative fuel vehicles. Because there are no fuel  
12    requirements in terms of tracking specifically, few  
13    governments have really instituted systems which allow  
14    them to understand whether their AVF programs are  
15    actually producing the ultimate result, and that is  
16    not just getting AVFs on the road, but getting  
17    alternative fuel used.

18            Some states have general ideas about the  
19    quantity of fuels, but they can't necessarily identify  
20    it to their particular AVFs that they're getting on  
21    the road. This problem is compounded with all of the  
22    dual fuel vehicles out there, which make up the  
23    majority of vehicles in that the tracking becomes  
24    extremely difficult.

25            EPAAct has made some very important strides

1     in beginning to make AVFs real in the world. For us  
2     the logical next step is to look at systems that  
3     actually insure we're not just getting vehicles out  
4     there, but fuels are being used.

5             We would recommend that DOE do a very  
6     close analysis of all the state programs out there in  
7     terms of who is actually doing tracking of systems.  
8     There are some good examples out there. If you were  
9     to take the best states that provide tracking of  
10    actual fuel being used from their vehicles, those  
11    could serve as very good models for other states and  
12    ultimately get us to the result that we want:

13    alternative fuels being used.

14            One other comment about the fuel use. We  
15    find that states that either have a coordinated  
16    vehicle purchase manager for all state agencies or  
17    that designate a coordinator for different state  
18    agencies really have the easiest time in terms of  
19    doing implementation.

20            Just as they have an easier time with  
21    implementation of vehicle purchase programs, we  
22    believe that would lead to better tracking of actual  
23    fuel use. So we would encourage DOE to work with  
24    states in making sure that they're coordinating to the  
25    maximum extent possible all vehicle activities

1     happening within their state agencies.

2                   That's it for now. I do want to  
3     underscore that very first point that I made, and I  
4     really think it is for us the biggest point that we  
5     can make today.

6                   Those people out there in the governments  
7     at the state and local level trying to make their  
8     programs real, what we've seen in the responses to our  
9     interviews is that the vast majority of those believe  
10    that the mandates are necessary to continue progress  
11    with AVF purchase.

12                  Thank you.

13                  MR. GROSS: On that point, how do you  
14    square the comments that have been made as a result of  
15    the surveys or survey results about mandates with the  
16    opinions, the preponderance of opinion that we've  
17    gotten today from the speakers with respect to  
18    mandates and statements that there is not a linkage  
19    between success and mandates?

20                  MR. HOWELL: Yeah, I find them  
21    interesting. Diane Shea, who I've had the opportunity  
22    to work with over the years who works for NACO -- in  
23    fact, before I came up here to speak, I don't know if  
24    she's still here, but I wanted to let Diane know that  
25    on a rare occasion we're actually at odds today.

1                   And what I find out that is that because  
2     that takes us into the political context, if states  
3     see that they're going to absorb the cost related to  
4     a mandate even though the majority of state incentive  
5     programs are currently being funded by federal  
6     programs, they don't want to deal with a mandate. For  
7     them that means more costs, and state budgets are so  
8     tight it becomes more of a politicized issue.

9                   I don't think they're necessarily  
10    responding to the reality of what's out there in terms  
11    of it being an unfunded mandate or not actually  
12    stimulating the purchasing of AVFs or interfering with  
13    voluntary programs. I think they're almost, in fact,  
14    reacting to the fear of them being hit with a cost  
15    when they're not.

16                  That for me underscores the need for DOE  
17    to think about are you guys going to continue to be  
18    the source of funding for AVF programs at the state  
19    and local level. You do a lot of it now. What's your  
20    role in the future?

21                  And if you are, our view, of course, is go  
22    to the source of the problem. That's oil. I know  
23    it's difficult, but it does seem to be a logical  
24    choice, and that's polls generally represent, the  
25    concept of polluter pays.

1                   MR. GROSS: Other questions?

2                   MR. RODGERS: Thank you, Doug.

3                   I did have one question related to ICE-T  
4                   and CMAQ. Right now the CMAQ program, I mean, from  
5                   the abbreviation, congestion mitigation and air  
6                   quality -- well, the energy efficiency, alternative  
7                   fuels, energy security is not even in the title of the  
8                   program. Yet we've learned that that program alone  
9                   has counted for a significant amount of funding for  
10                  alternative fuels.

11                  And my question is: since the bill is up  
12                  for reauthorization, is there anything that would  
13                  prevent the Congress from adding energy security  
14                  components to that bill that would, as you say,  
15                  provide a long-term source of funding for alternative  
16                  fuel programs?

17                  MR. HOWELL: There certainly is an  
18                  opportunity to -- I don't know if you want to  
19                  legislatively add it as a requirement. Our concern is  
20                  that the CMAQ program is being under attack because  
21                  some see it as a diversion from the Highway Trust  
22                  Fund.

23                  Well, I actually want to build up to this  
24                  comment to say I appreciate the opportunity to follow  
25                  Mr. Kerkhoven from the Highway Users. I don't know if

1     he's still here. Hello. He is.

2                     Our organizations and the ones we're  
3     affiliated with seem to follow each other around town  
4     saying different things all the time. So now I'm up  
5     here and so I get to respond.

6                     The idea that highway users pay and  
7     benefit, well, they also use the air. They also  
8     create energy security risks. So you pay.

9                     CMAQ is the first time that we're seeing  
10    money going into the Highway Trust Fund paying for  
11    some of those costs that are never incorporated in a  
12    model of user pay. For that reason alone, we think  
13    CMAQ is incredibly important.

14                    Because it is such a political football at  
15    this point, we are very concerned about trying to  
16    change how CMAQ is used. Let's just say let's get it  
17    reauthorized. It's serving all those goals. The best  
18    thing that could be done is to underscore to members  
19    of Congress on the Hill how important CMAQ is in  
20    achieving all these other goals.

21                    EPAct, for that matter -- not only does  
22    CMAQ serve criteria pollutants, but also serving  
23    energy goals and greenhouse gas goals, but EPAct was  
24    focused on energy security, national economy, and  
25    greenhouse gas reduction. It also has a very good

1     impact on criteria pollutants.

2                   That brings me to another point. We're  
3     now very concerned about the public health standard of  
4     particulate matter. We're learning that there may be  
5     as many as 60,000 premature deaths per year from  
  
6     particulates alone. The majority of that concern is  
7     focused on fossil fuel. About a third of that can be  
8     attributed to oil.

9                   As these standards get tightened and as  
10    they should because there's a very big public health  
11    concern, the work that you're doing with EPAAct and  
12    this rulemaking can also help achieve that public  
  
13    health goal. It reinforces the importance of the  
14    requirement.

15                  MR. McARDLE: One real quick question. In  
  
16    regard to your survey, I noticed you used the term AVF  
17    administrators. Is it correct that you were speaking  
18    to people that already had AVFs in their fleet already  
19    or just all fleet administrators?

20                  MR. HOWELL: No. What we're talking to is  
21    government officials that implement the state and  
22    local and federal programs intended to promote or, in  
  
23    fact, more often than not mandate the purchase of  
24    alternative fuel vehicles. So we're talking about  
25    government officials who are responsible for



1     overseeing programs.

2                   And it's their view -- a lot of these  
3     officials have had incentive programs. I'd like to  
4     say something about their view on incentives.

5                   We support incentives. We think it's a  
6     great idea. The work being done by Clean Cities is a  
7     great idea, but we don't think the work of Clean  
8     Cities is going to be able to thrive as much as it has  
9     if EPO goes away, and we don't believe that  
10    voluntary or other incentive programs will thrive if  
11    EPO goes away.

12                   It really underscores the importance of  
13    how it's not a silver bullet. You've got to do many  
14    approaches, and mandates are a very, very important  
15    part of that.

16                   MR. McARDLE: Okay. So the people you  
17    were speaking to were state officials?

18                   MR. HOWELL: Right.

19                   MR. McARDLE: Implementing AVF programs --

20                   MR. HOWELL: Correct.

21                   MR. McARDLE: -- versus other people that  
22    are --

23                   MR. HOWELL: Fleet managers.

24                   MR. McARDLE: -- like NAFA, for instance?

25                   MR. HOWELL: Correct.

1                   MR. McARDLE: Okay. I was just trying to  
2 get that straight.

3                   MR. HOWELL: Really.

4                   MR. McARDLE: Thank you.

5                   MR. KATZ: I have a question.

6                   MR. GROSS: All right.

7                   MR. KATZ: You brought up an interesting  
8 aspect as far as how to continue to get money to the  
9 states for these programs, and I'm not going to  
10 comment on getting money from the oil companies,  
11 but --

12                  MR. HOWELL: Good luck.

13                  MR. KATZ: No, I'm not going to comment on  
14 that. That's your own --

15                  MR. HOWELL: Right.

16                  MR. KATZ: I have no comment on that right  
17 now.

18                  Would you recommend some sort of a tax  
19 check-off program so that when you send in your taxes,  
20 if you want to give X number of dollars to fund the  
21 national alternative fuels program, is that something  
22 you think would work?

23                  MR. HOWELL: I don't know. I would  
24 recommend a multiplicity of approaches. I would say,  
25 yes, try it.

1                   There is no silver bullet. There really  
2   isn't, and so I would say, yes, let's try that. Yes,  
3   let's leverage more highway user fees so that we can  
4   pay for the problems being caused by highway users.  
5   Let's do a variety of problems. Let's do mandates.  
  
6   Let's do incentives, but we've got to keep many fronts  
7   going.

8                   Those program administrators that have the  
  
9   most experience from our view in terms of the ones  
10   we're interviewing, they agree that you've got to try  
11   many, many fronts to achieving energy diversity,  
12   alternative fuel vehicles, alternative fuel use on the  
13   road.

14                  So if you want to do a check-off, I think  
15   that could be a very good approach. It certainly is  
16   worth trying. We've got to try a lot of approaches.

17                  MR. KATZ: Thank you.

18                  MR. GROSS: Thank you very much, Mr.  
19   Howell.

20                  Our next speaker is Mr. Steven Cain.

21                  MR. CAIN: Good afternoon. My name is  
22   Steven Cain. I'm President of PAF Fueling Systems,  
23   Incorporated, a privately held Delaware based  
24   corporation. The principal owners are Steven Chain,  
25   Carol Mahoney and two minority stockholders.

1                   PAF is involved in establishing  
2     alternative fuel infrastructure in the Northeast,  
3     primarily the Philadelphia area. PAF is also a member  
4     of the Greater Philadelphia Clean Cities Program and  
5     the Delaware Clean Cities Program.

6                   Although PAF has considered other  
7     alternative fuels, it has concentrated on compressed  
8     natural gas or CNG. Therefore, our experiences and  
9     observations are based primarily on this alternative  
10    fuel.

11                  PAF currently has two public access CNG  
12    fueling facilities in operation in the City of  
13    Philadelphia. I might note here for some who have  
14    expressed concern over the infrastructure that we can  
15    currently fuel every single alternative fueled CNG  
16    vehicle in the City of Philadelphia with those two  
17    stations. They are also available to the city 24  
18    hours a day, card operated.

19                  These facilities are designed for and  
20    dedicated to CNG. They are not a service station add-  
21    on. The only other public CNG facility in  
22    Philadelphia is an addition to an existing gasoline-  
23    diesel fuel station.

24                  This station preceded PAF and was for a  
25    time the only facility in the city. PECO Energy had

1 developed eight CNG fueling station in the surrounding  
2 counties outside the City of Philadelphia. However,  
3 these are located on PECO sites without public access,  
4 being the primary consideration for locations.

5 Because only one station offered CNG in  
6 the City of Philadelphia, fleet operators were  
7 reluctant to dedicate their vehicles to CNG, as there  
8 was no back-up if the single station should have  
9 problems. The City of Philadelphia does have  
10 dedicated vehicles, and these vehicles were idled if  
11 that single station was down for repairs or  
12 maintenance.

13 With no alternative source of CNG in the  
14 city, most vehicles were converted or purchased as bi-  
15 fuel and used gasoline as a back-up fuel, a common  
16 practice with government fleets, for example, the Post  
17 Office and GSA.

18 A major drawback to the bi-fuel vehicle  
19 installation with gasoline as a back-up is that the  
20 two fuels compete for on-board storage space. Because  
21 CNG is a gas and requires bulky, high pressure  
22 storage, either the storage is limited or considerable  
23 vehicle space is used. The general result is limited  
24 CNG storage, thus limited range on the alternative  
25 fuel, and ultimately lower usage of the CNG fuel.

1                   But with a limited infrastructure the  
2   fleet operators were reluctant to dedicate their  
3   vehicles to an alternative fuel. When the PAF  
4   stations went into operation, more fleets showed an  
5   interest in converting their fleets to run on CNG.  
  
6   The City of Philadelphia converted more vehicles. GSA  
7   ordered and has received vehicles. Philadelphia Gas  
8   Works has indicated that they will order a minimum of  
9   75 dedicated service vans for the model year 1997, and  
10   SEPTA, which is Southeast Pennsylvania Transit  
11   Authority, is to put vehicles into operation.

12                  A major reason for the infrastructure, or  
13   is the infrastructure: the availability of back-up  
14   fueling if one station is inoperative for any reason.

15                  To date the mandates have applied to  
16   government fleets and to fuel providers usually in the  
17   form of public utilities. Now you are considering the  
18   rules for private fleets.

19                  The government fleets have been given  
20   monies via several government programs. The private  
21   fleets have not had access to these programs and  
22   usually must bear the cost themselves. Tax incentives  
23   have eased the burden some, but out-of-pocket outlays  
24   can be substantial.

25                  The same applies to the infrastructure, a

1     vital component in the alterative fuels program.

2                   PAF has found that as a private entity, we  
3     do not qualify for the same public assistance that the  
4     public sector receives. Private financing is very  
5     difficult for several reasons. Alternative fuel is  
  
6     new to most lending institutions, and traditional  
7     banks are reluctant to loan money to a new industry or  
8     for equipment that they do not understand. Because of  
  
9     the chicken and egg scenario, both vehicles and  
10    infrastructure are required, and the risk of  
11    reasonable return in a reasonable time is often  
12    unacceptable to traditional lending institutions.

13                   In the infrastructure, the natural gas  
14    compression storage and dispensing equipment is very  
15    expensive, and payback is a longer term than  
  
16    traditional industries. Initial usage is often very  
17    disappointing, and the cash flow is substantially less  
18    than needed to defray capital costs.

19                   Even government agencies, such as the SBA,  
  
20    do not understand the industry and are reluctant to  
21    underwrite alternative fuel projects or any project  
22    dependent upon government regulations or mandates.

23                   Mandates and/or government funding  
24    programs offer no assistance in securing funding for  
25    financing since most lenders put little credence in

1 government performance.

2           Some states have designed programs to  
3 encourage AVFs and the development of the  
4 infrastructure. As with most well intentioned  
5 government programs, both state and federal, we have  
6 found the paper work to be onerous and the bureaucracy  
7 and politics often affect the process.

8           Even when qualified for funding, the  
9 actual receipt of the approved funding is often not  
10 timely. For incentive and/or grant-loan programs to  
11 be effective, they must be simple, straightforward,  
12 and timely.

13           As an aside here, could you please put any  
14 of these programs on a computer disk. The paper work  
15 can be outrageous on occasion.

16           The programs must also accurately address  
17 the incremental and ancillary costs to the fleets,  
18 fuel providers and those building the infrastructure.

19           Occasionally for the program to be  
20 successful in the private sector or additionally, OEMs  
21 must be encouraged possibly in the form of mandates to  
22 develop and produce vehicles and/or engines that  
23 operate on alternative fuels. OEMs must be encouraged  
24 to provide timely delivery and to stop modifying  
25 engine families so the developed conversion kits no



1 longer operate, and to provide information to  
2 conversion kit developers.

3 OEMs have the capability of offering a  
4 variety of viable AVFs for the market use now, but are  
5 not doing so and are under no mandates by the  
6 government to do so. Fleets are under a mandate to  
7 use AVFs, but the OEMs are not required to produce  
8 them. This seems contradictory and contrary to the  
9 spirit of EPAct.

10 The current strategy of DOE is to mandate  
11 that a percentage of fleet vehicles run on alternative  
12 fuel. It is our experience that a number of fleets  
13 have converted the required number of vehicles, but  
14 the vehicles are not consistently operated on the  
15 alternative fuels. The vehicles are often bi-fuel and  
16 run on gasoline instead of the designated alternative  
17 fuel. In some instances, the alternative fuel is used  
18 an average of as little as five percent of the time,  
19 and we've heard some here today that say that their  
20 vehicles have never run on the alternative fuel they  
21 were designed for.

22 It is our suggestion, therefore, that the  
23 fleets that meet the criteria for alternative fuels be  
24 required to make an alternative fuel purchase in  
25 percentages set for EPAct guidelines rather than a set

1     vehicle conversion percentage. This will allow them  
2     to convert any of their vehicles they feel best suited  
3     to the alternative fuel usage, and if the fleets are  
4     required to purchase fuel rather than vehicles, we  
5     feel the usage would increase.

6                 Some have suggested that DOE form  
7     partnership and working relations with large oil  
8     companies to encourage alternative fuel use. However,  
9     because of the huge investment in refineries, many of  
10    these companies are hesitant to produce or promote  
11    alternative fuels that are in competition with their  
12    refined petroleum products.

13                EPAct is an act, quote, "to reduce the  
14    nation's dependence on imported oil, to provide for  
15    the energy security of the nation." By encouraging  
16    oil companies to offer discounts on petroleum products  
17    to alternative fuel users if they purchase both  
18    alternative and petroleum fuels from the company is,  
19    in our opinion, contrary to EPAct and discriminatory  
20    to companies not associated with refining companies.

21                PAF would encourage DOE to support equally  
22    all companies willing to develop an infrastructure of  
23    alternative fueling stations and to make monies,  
24    grants, or low interest loans available to private  
25    companies, as well as to other government agencies,

1     whether state, federal, or local.

2                   PAF views alternative fuels as beneficial  
3     to the country both for foreign fuel dependence and  
4     environmental issues.  However, PAF is disappointed  
5     that the governmental agencies responsible for the  
6     implementation of EPCa have been unable to produce  
7     rules regarding the use of alternative fuels in a  
8     timely manner, thus both confusing the public and  
9     reducing the private fleet incentive to view EPCa  
10    seriously.

11                  PAF feels that the alternative fuel  
12    program implementation would have progressed more  
13    rapidly and positively had the rules and regulations  
14    been promulgated in a timely manner, including the  
15    rules currently being considered.

16                  While citizens will be sanctioned for a  
17    failure to comply with the rules, we see no sanctions  
18    on government for failure to produce the rules in a  
19    timely manner.

20                  It is the intention of PAF Fueling Systems  
21    to continue working on an infrastructure for  
22    alternative fuels.  PAF is a private company and would  
23    appreciate more timely and substantial help from the  
24    government that has mandated a public compliance with  
25    EPCa.

1                   Thank you.

2                   MR. GROSS: Thank you.

3                   Question?

4                   MR. McARDLE: Yes. I noticed in your  
5 opening you said that PAF has two public access CNG  
6 fueling facilities in Philadelphia and that they're  
7 designed for and dedicated to CNG. Is there a reason  
8 you went that route rather than trying to be an add-on  
9 to an existing station?

10                  MR. CAIN: The one existing add-on is  
11 behind the existing station. It's difficult to get  
12 it, and it is not advertised whatsoever. It is, I  
13 guess, almost nonexistent. It gets very little care  
14 from the oil company that put it there, and it is not  
15 what we consider an asset to the alternative fuel  
16 industry. It's more like an afterthought, and it's  
17 not given the publicity that would encourage.

18                  In fact, the station lists all of its fuel  
19 prices, the diesel price, and completely ignores the  
20 alternative fuel that is available there also.

21                  MR. McARDLE: Also, in terms of your  
22 location, did you locate these stations to be near  
23 fleets, to be --

24                  MR. CAIN: All stations are on land that  
25 is leased from the public utility, Philadelphia Gas

1 Works. One of them is two blocks from their  
2 headquarters and services their fleet of 50 vehicles,  
3 of which about 12 of them maximum daily use it. They  
4 have vehicles that run on it, but they do not enforce  
5 the need to run on it.

6 That's why our suggestion that they be  
7 required to buy a percentage of their fuel rather than  
8 convert the vehicles because the conversion of the  
9 vehicles does not guarantee that they will even use  
10 them on the fuel they're converted to.

11 MR. McARDLE: Thank you.

12 MR. RODGERS: If I could follow up on that  
13 point.

14 MR. CAIN: Sure.

15 MR. RODGERS: And make sure I understand  
16 the proposal. For example, a covered fleet was going  
17 to be required to buy 20 alternative fuel vehicles.  
18 Is your proposal to take the equivalent amount of  
19 alternative fuel consumed by those vehicles and then  
20 put that fuel requirement onto the fleet instead of  
21 the vehicle purchase requirement?

22 MR. CAIN: Yes, but our proposal is that  
23 the EPA requirement for the percentage of fuel that  
24 wants to be displaced should be the percentage of fuel  
25 that these fleets would have to buy, ten percent,

1     whatever is the 30 percent.

2                   Then they could choose which vehicles they  
3     would need. You had said vehicles by weight. For  
4     some of them it may be more advantageous to do some of  
5     the larger vehicles or, you know, a different  
  
6     assortment than is currently acceptable by EPAct. So  
7     you would not regulate then the vehicles that they  
8     could use. You would only regulate how much fuel they  
  
9     bought, which would be easier to track than trying to  
10    follow the hour meters, I would think, on all of the  
11    vehicles.

12                  MR. RODGERS: I would appreciate -- I  
  
13    think this is a very interesting idea, and I don't  
14    know if you've thought about this angle and maybe you  
15    can think about it and respond later, whether buying  
  
16    a vehicle that had increased fuel economy, meaning  
17    they would consume less oil through energy efficiency,  
18    whether that would fall into the same kind of a  
19    framework that you're proposing.

20                  Just think about that.

21                  MR. CAIN: Okay. I would assume it would  
22    since it would decrease our dependency on foreign  
  
23    fuel. Any method by which they would decrease the  
24    foreign fuel dependency, which is the spirit of this  
25    law here.

1                   MR. KATZ: Just a follow-up on the fuel  
2 use. I'm a little confused. The EPAAct goals you're  
3 referring to, are you referring to the fleet goals  
4 that are set out, the 20, 30?

5                   MR. CAIN: Yes, the --

6                   MR. KATZ: Okay. So let me give you how  
7 I understand the paragraph here. Instead of having a  
8 fleet get 20 percent of its new vehicles be on  
9 alternative fuel, that in that model year 20 percent  
10 of all fuel used by that fleet has to be alternative  
11 fuel.

12                  MR. CAIN: Yes.

13                  MR. KATZ: Is that correct?

14                  MR. CAIN: Yes.

15                  MR. KATZ: Okay.

16                  MR. CAIN: So they could buy a large use  
17 vehicle perhaps that perhaps three vehicles would  
18 satisfy the fuel usage need as opposed to ten of a  
19 different type of their fleet.

20                  MR. KATZ: And would you recommend this as  
21 a -- you know we can do different things with the  
22 mandate. This is sort of a recommendation to keep  
23 percent goals, but have them tailored to fuel use, and  
24 your impression is that this would be successful, that  
25 this wouldn't be opposed?

1 I personally think it's a very intriguing  
2 idea and would like to know if you think it would have  
3 some acceptance.

4 MR. CAIN: I don't see it would have any  
5 greater opposition than their current mandate.

6 (Laughter.)

7 MR. CAIN: And I would think that --

8 PARTICIPANT: I'm not sure that's saying  
9 much.

10 MR. CAIN: I would think that it would  
11 encourage the use of the fuel from the standpoint that  
12 they are not forced to buy a certain number of a bus.

13 Ford doesn't produce the vans that they need. Maybe  
14 there are other vehicles in their fleet or as the  
15 gentleman didn't want the Crown Vics. He didn't want

16 to put them in there, but perhaps there are other  
17 vehicles in their fleet they convert or there may be  
18 larger vehicles or some of them may be off road.  
19 Whatever would be their fuel usage, the percentage

20 that we want to reduce the foreign oil usage by.

21 MR. KATZ: Okay. Considering the goal is  
22 replacement fuel, would this percent then be  
23 replacement fuel use?

24 MR. CAIN: Yes.

25 MR. KATZ: Where you would be able to use



1 reformulated gas. B20 would be included in a program  
2 like that. The 20 percent of the fuel would be a  
3 replacement for the petroleum.

4 MR. CAIN: As was questioned there, I  
5 would think that that would apply. Any use of fuel by  
6 the percentage that would reduce our dependency on  
7 foreign fuel, and gives then the companies the  
8 flexibility to apply it to the vehicles that they  
9 really need to apply it to rather than some that EPA  
10 has mandated.

11 MR. KATZ: Great. Thank you.

12 MR. CAIN: Thank you.

13 MR. GROSS: Thanks, Mr. Cain.

14 Our next speaker is Mr. Douglas Pickering.

15 MR. PICKERING: My name is Doug Pickering.

16 I'm a partner in Ag Environmental Products, LLC.

17 We're in Lenexa, Kansas.

18 AEP is a diversified distributor of  
19 biodiesel fuel and other environmentally friendly  
20 products derived from refined vegetables oils and  
21 vegetable oil esters.

22 I appreciate this opportunity to present  
23 the information concerning biodiesel, a cleaner  
24 burning, oxygenated fuel, and you know all of that  
25 stuff. So let's skip that.

1 (Laughter.)

2 MR. PICKERING: What we're here to get  
3 biodiesel, and especially B20 included in the EPA's  
4 programs. We think it would be good for our nation's  
5 farmers and good for the environment and good for the  
6 national energy security.

7 I'm sure you're already familiar with  
8 ethanol, and some people ask whether we're competing  
9 with ethanol. The simple answer is no. Biodiesel and  
10 ethanol are not directly competitive fuels. Ethanol  
11 is a chemical alcohol and alcohols are most compatible  
12 in gasoline type engines. Biodiesel goes in diesel  
13 compression ignition engines.

14 Therefore, rather than being a competitive  
15 fuel, biodiesel and ethanol are complementary fuels  
16 for separate and distinct engine classes. In fact,  
17 with the commercialization of biodiesel, America's  
18 farmers could now offer our nation a complete set of  
19 renewable, cleaner burning alternative fuels that are  
20 compatible with both the domestic technologies, gas  
21 and diesel.

22 Expanding the market for domestically  
23 produced agricultural products is an important goal  
24 for my company. Biodiesel offers an opportunity for  
25 significant rural economic development. Recently AEP

1     and our partner, Ag Processing, Incorporated, of  
2     Omaha, announced the construction of the first fully  
3     dedicated commercial scale biodiesel plant in the  
4     Midwest in Sergeants Bluff, Iowa. This facility is  
5     scheduled to begin producing biodiesel on an ominous  
6     day, November 5th, next month.

7                 This facility will have the capacity to  
8     use the soybean oil produced from 90,000 acres of  
9     soybeans. Soybeans are produced on America's newest  
10    oil fields with permanent proven reserves, and this  
11    oil field production is up.

12                Using some simple calculations, we can  
13    estimate the farm and agricultural related jobs that  
14    this facility will help support. According to the  
15    U.S. Census Bureau, 90,000 acres is equivalent to the  
16    entire soybean oil production for more than 200  
17    average sized Iowa farms. In Iowa, about 40 percent  
18    of the family farms hire full-time employees outside  
19    of the immediate family to assist with the farming  
20    operation.

21                Beyond the expenses for hired labor, the  
22    average family farm has about \$68,000 in additional  
23    annual farm related production expenses. We believe  
24    this annual expenditure of 68,000 per family farm  
25    directly contributes to the employment of two

1 additional workers in our economy to support the farm  
2 production infrastructure.

3               So when we add together the jobs from our  
4 Iowa family farmers, their employees, and the workers  
5 who have jobs to support the farming infrastructure,  
6 we can certain estimate that our modest biodiesel  
7 production plan will help support 680 farm and  
8 agricultural related production jobs in the Midwest,  
9 and I'm sure the economists can follow all of that.

10              In the Midwest, where the memories of the  
11 destructive farm depression of the 1980s are still  
12 fresh in everyone's minds, the creation of new markets  
13 for agriculturally derived products like biodiesel is  
14 not taken for granted. We located our biodiesel  
15 production facility in Iowa because we wanted to be  
16 close to the source of our major feedstock, soybean  
17 oil. We also wanted the most economic benefits of  
18 this new fuel to stay in the farming heartland of our  
19 nation to contribute to the tax base of the farm  
20 states and to provide new employment opportunities for  
21 rural communities that have lost population as young  
22 people leave the region to seek employment elsewhere.

23              I am happy to report to you that the  
24 reception we received in the Midwest to our efforts  
25 has been very encouraging. Two states, Iowa and

1 Nebraska, have recently decided to include low blends  
2 of biodiesel, between five and ten percent, in their  
3 fuel purchases for some of their state owned diesel  
4 vehicles.

5               These states made these decisions without  
6 the benefit of any mandates from Washington, without  
7 any direct financial assistance from the federal  
8 government, and without the benefit of any credits or  
9 other considerations toward compliance with any so-  
10 called alternative fuel programs.

11               I expect that other midwestern states and  
12 local governments, as well as some private diesel fuel  
13 marketers, such as farm owned cooperatives, will begin  
14 to utilize more and more biodiesel blended fuels over  
15 the next few years as more locally produced biodiesel  
16 becomes available in the Midwest.

17               By the way, our plant is scaled to produce  
18 about seven and a half million gallons a year, and we  
19 have sized it so that it can be upgraded three times  
20 to 30 million gallons a year.

21               Now, we have not limited our markets to  
22 our home in the Midwest. AEP has developed a unique  
23 biodiesel fuel specifically for the marine market.  
24 Our SOYGOLD MARINE is one of the fastest growing  
25 marine fuel products in the California San Francisco

1 Bay area.

2 More than 200 recreational and commercial  
3 boating enthusiasts in the San Francisco Bay area have  
4 formed the Bay Area Marine Biodiesel League to promote  
5 the use of clean burning biodiesel in marine diesel  
6 engines.

7 Biodiesel is gaining in popularity with  
8 ecologically minded boaters because it is nontoxic,  
9 biodegrades quickly in water, making it safer for the  
10 environment than the traditional diesel fuels.

11 We had a survey, by the way. We had a  
12 boat regatta in Seattle three months ago. We did a  
13 follow-up survey, and the number one concern for  
14 pleasure boaters was fuel spills in the water. That  
15 was the number one of all the questions that we asked  
16 them.

17 Products like SOYGOLD MARINE also seem to  
18 have a promising future in other environmentally  
19 sensitive marine markets where the accidental release  
20 of diesel fuel is a major concern. I just said that.

21 However, like the biodiesel market in the  
22 midwestern state government fleets, marine fuel  
23 applications for biodiesel are growing without or  
24 possibly in spite of federal alternative fuel  
25 programs, such as EPAct.

1           As the markets for biodiesel continue to  
2   expand, my company feels that DOE needs to begin  
3   thinking about alternative fuels and alternative fuel  
4   vehicles in new and different ways. DOE's statutory  
5   and regulatory interpretation should be broadly  
6   inclusive of all reasonable proposals -- and I like  
7   the one Mr. Cain just presented -- to advance the  
8   goals of EPCa instead of narrowly restricting the  
9   measure to compliance with minor provisions of the  
10  legislation.

11           Several of the ideas DOE should actively  
12  consider based upon my presentation today are:

13           First, DOE should expand the list of EPCa  
14  alternative fuels to include B20 as an alternative  
15  fuel. I heard some people from some counties this  
16  morning talk about the acquisition of qualified  
17  vehicles and expense, and if B20 were approved as an  
18  alternative fuel, they may already have some  
19  alternative fuel vehicles in their fleets without  
20  having to spend anymore money.

21           B20 will give regulated fleets more choice  
22  and greater flexibility to meet the goals of EPCa.

23   Designating B20 as an alternative fuel would not  
24  directly impact the budget or spending of any agency  
25  of government. It will not create a subsidy or tax

1 credit for B20 or biodiesel. It will not impose any  
2 additional mandate or requirement on regulated fleets  
3 that must comply with EPCa.

4           Second, DOE should figure out a way to  
5 directly reward or compensate state and local  
6 governments or private fleets that utilize alternative  
7 fuels, like biodiesel, above and beyond the mandatory  
8 requirements of the EPCa programs. States like Iowa  
9 and Nebraska are committed to using renewable  
10 alternative fuels, like biodiesel and ethanol, above  
11 and beyond the regulatory requirements of the current  
12 EPCa programs. Whether by credits, grants, technical  
13 assistance, preference for competitive awards, or  
14 simply direct public acknowledgement, DOE should  
15 reduce its role as a regulatory and emphasize its role  
16 as a facilitator of alternative fuel use.

17           Third, DOE should examine its own use of  
18 alternative fuels and alternative fuel vehicles to  
19 find new ways to support alternative fuels through  
20 direct purchase of fuel for DOE vehicles and fuel for  
21 vehicles which operate by DOE contractors, such as the  
22 national labs.

23           For example, DOE could require that all  
24 the contractors must bid for, use, and accept minimum  
25 five percent biodiesel blended diesel fuels wherever



1     feasible as a condition of holding a DOE contract.

2     This is not a mandate since no person or company is  
3     ever required to enter into a voluntary contract  
4     against their will.

5                 If DOE is unwilling to voluntarily go  
6     beyond requirements of its current EPart programs in  
7     its own purchasing and contracting decisions, why  
8     would it expect anyone else to voluntarily do  
9     otherwise?

10                Fourth, DOE must expand its consideration  
11    of alternative fuels and alternatively fueled vehicles  
12    to directly include off-road and marine applications.

13    SOYGOLD MARINE is demonstrating that there is a market  
14    for environmentally preferable alternative fuels in  
15    markets outside those defined narrowly by DOE's EPart  
16    programs.

17                Instead of ignoring these opportunities,  
18    DOE should specifically embrace it as creative  
19    solutions to our national environmental and energy  
20    security problems.

21                Now, I must go back and go face to face  
22    with 380,000 soybean and biodiesel farmers, and these  
23    380,000 farmers, they did inhale, and they're sitting  
24    back there waiting to exhale in exclamation of relief  
25    that B20 made it through.

1                   Now, when I get back there I want to tell  
2   them that DOE stands for Department of Energy and not  
3   "diminish our enthusiasm."

4                   So my brother asked me yesterday when he  
5   thought I was going to testify. He said, "That  
6   doesn't sound like you, testifying in front of a  
7   comment," and he said, "What has DOE actually had any  
8   impact on?"

9                   And I said, "Well, I'll have to think  
10  about that a little bit. I'm not too sure how to  
11  answer that."

12                  But I think I'll know how to answer it now  
13  because right now I'm going to go walk to the mass  
14  transit, ride to the airport, take an energy efficient  
15  jet back to Kansas City, drive my four cylinder car  
16  home, park in my garage which is lit by fluorescent  
17  bulbs, turn on my nine percent efficient pulse  
18  furnace, check out my auto set-back thermostat, and  
19  try to get some sleep.

20                  (Laughter.)

21                  MR. PICKERING: Any questions?

22                  MR. GROSS: Well, I particularly

23  appreciate that last long sentence there, but you're  
24  turning the screws on us a little bit, twisting and I,  
25  for one, will squirm a little, but I was encouraged by

1 the statement that low biodiesel blends are being  
2 purchased without the benefit of our adding it to the  
3 list of officially alternative fuels, and presumably  
4 those are being bought based on the merits of the fuel  
5 and combination cost, performance, and so on.

6 And the question I've got is: if that's  
7 the case, the counties and others who have testified  
8 that their decisions really are somehow connected to  
9 it being called an alternative fuel, why is that the  
10 case? If we in DOE get out of the regulations  
11 business into what --

12 MR. PICKERING: Facilitating.

13 MR. GROSS: -- you suggested, the  
14 facilitation business, and facilitate exchange of  
15 information and so forth, might not that be a more  
16 productive approach so that others would understand  
17 the merits?

18 MR. PICKERING: That's probably a good  
19 idea. The National Biodiesel Board commissioned an  
20 economic modeling in Iowa, and I think the last  
21 speaker will be able to address this better, but they  
22 did an economic model of what the impact economically  
23 in Iowa and Nebraska would be if they kept those  
24 dollars in and circulating in the economy in Iowa, and  
25 the payback, I believe, is in the neighborhood of

1     three-to-one. For every dollar they spend on  
2     biodiesel fuel in their state expenditures, the  
3     payback or the turnover was three-to-one paid back to  
4     the local economy keeping it in place.

5                 Now, I'm not an expert in that area at  
6     all.

7                 MR. GROSS: Okay. Well, I appreciate you  
8     giving us some insights here, also giving us some food  
9     for thought as others have, as well.

10                Other questions?

11                MR. McARDLE: Yes. In your  
12     recommendations, you said DOE should figure out a way  
13     to directly reward or compensate state and local  
14     governments or private fleets that utilize all fuels,  
15     like biodiesel. Do you have any specific suggestions  
16     in those areas?

17                MR. PICKERING: It's been suggested, and  
18     I can't be specific, but it's been suggested there are  
19     a number of discretionary programs or competitive  
20     programs, whether it's CMAQ funds or whatever, that  
21     are awarded and are awarded on some basis of merit,  
22     and if that basis can be expanded to include those who  
23     go beyond the scope of what the minimum requirement  
24     is, then those rewards could be extended in that  
25     manner.

1                   MR. McARDLE: Thank you.

2                   MS. LEWIS: I want to ask you a question  
3    about the two states that recently decided to include  
4    biodiesel, the blends between five and ten percent.  
5    What is the average price of that fuel per gallon?

6                   MR. PICKERING: Well --

7                   MS. LEWIS: For biodiesel. I'm sorry.

8                   MR. PICKERING: On the average, you don't  
  
9    need a topcoat in Buffalo, New York, but I think the  
10   average price is probably going to fall in the \$3  
11   range, \$3 to 3.50 a gallon range as a neat fuel, and  
12   depending on the price of diesel fuel, the impact on  
  
13   a gallon of fuel at the state level with those is  
14   between 25 and 40 cents a gallon, depending on what  
15   blend rate they use and what they're paying for the  
16   regular diesel.

17                   Is that the question you asked me?

18                   MS. LEWIS: I wanted to know, say, for  
19   instance, you have a B-5 or a B-10. Is it \$4 per  
  
20   gall, \$6 per gallon versus a B20 at some other price?

21                   It's very commendable, the two states, to  
22   do this, but I was wondering why the five and ten  
  
23   percent. It's cheaper, I would assume, than the B20;  
24   is that correct?

25                   MR. PICKERING: Yes. My understanding,

1     the reason they chose five percent in Iowa is they had  
2     a certain amount of money allotted. I'm not sure what  
3     the amount was, and they wanted to spread it to as  
4     many areas of their Department of Transportation.  
5     They have 19 locations. They wanted all those  
6     locations to participate. So it was kind of a back-  
7     down from a budgeted amount they would spend on  
8     biodiesel.

9                 MS. LEWIS: Okay.

10                MR. PICKERING: And they spread that so  
11     all of the 19 locations could get experience with it.  
12     Each of them have received their allotment of fuel and  
13     experienced a year of usage. Then they can reevaluate  
14     it after the year.

15                So it was a fixed amount divided by a  
16     broad spread of locations.

17                MS. LEWIS: Okay. Thank you.

18                MR. GROSS: Thanks again, Mr. Pickering.

19                MR. PICKERING: Thank you.

20                MR. GROSS: Our next speaker is Karl  
21     Rehberg.

22                MR. REHBERG: Good afternoon, Mr. Gross,  
23     Mr. Rodgers, Mr. Katz, and Ms. Lewis, and Mr. McArdle.  
24     I haven't seen some of you guys since Dallas.

25                Mr. Pickering makes my job easy this

1     afternoon. He answered all the tough questions and  
2     the comments about being a facilitator to this  
3     business echoes my remarks.

4                   I thank you for allowing us to come here  
5     today, and I'd like to make a few statements about the  
6     viability of biodiesel and the fact that this week has  
7     been an extraordinary week. We have accomplished an  
8     extreme, very extreme, major breakthrough in this  
9     industry, and I'll tell you a little bit more about  
10    that in a moment.

11                  Biodiesel actually really meets all of the  
12    requirements of the Clean Air Act and Energy Policy  
13    Act. There were some comments made earlier about  
14    you'd like to have 250,000 vehicles on the road in the  
15    next year or so as alternate fuel vehicles. Wasn't  
16    there a comment earlier today about that?

17                  MR. GROSS: That's a goal somewhere.

18                  MR. REHBERG: Okay. There are more than  
19    that on the road right now that could be alternative  
20    fuel vehicles if you want to approve the idea of B20.  
21    There is not a diesel engine that has been made in the  
22    last 100 years that can't use B20 without  
23    modifications, or if there are any modifications, I  
24    doubt if they'd cost more than \$10. There might be a  
25    few pieces of plastic hose or something like that that

1 would be needed replacement.

2 Biodiesel decreased our dependency on  
3 imports, the national security matter. It has no  
4 sulfur to contribute to acid rain. A lot of these  
5 things you know about already, but just for the  
6 record, we have no benzene content, creating any  
7 carcinogens in the air we breath. We balance out on  
8 the production and consumption of CO2. The reduction  
9 in particulate black smoke and exhaust gases are  
10 extremely significant, and the exhaust gases smell  
11 like french fries. I mean, what more can you want?

12 The progress that we've been making lately  
13 in terms of the toxicity of this has been to have a  
14 product that has a toxicity less than salt and a  
15 biodegradable capability of sugar, and it can be made  
16 from renewable resources grown domestically, and it  
17 can also be made from recyclable waste materials from  
18 domestic production and restaurants and frying  
19 operations like Mrs. Paul's or Frito-Lay or McDonald's  
20 and what have you.

21 The few applications of neat biodiesel  
22 like in mining operations and so forth are out there.

23 However, the 20 percent blend does meet the  
24 requirements you want under the EPAct and Clean Air  
25 Act, and if we blend it 20 percent, we can affect the



1 emissions on five vehicles rather than one.

2                   If we had one vehicle running at 100  
3 percent, we really don't accomplish much other than  
4 what we're doing in that one vehicle. But burning at  
5 20 percent and meeting the requirements of what you  
  
6 want on the emission side of it, why not have five  
7 vehicles instead of one on the road in compliance?

8                   At any rate, there is a definite  
  
9 possibility that we can produce over a billion gallons  
10 of this material, in effect, over five billion gallons  
11 of diesel fuel going into vehicles that can be  
12 classified as alternate vehicles. We do not have to  
  
13 reinvent the wheel. We do not have to reinvent the  
14 vehicle, and we do not have to reinvent the engine.

15                   It's really quite simple. In fact, it's  
  
16 so simple that we're missing it.

17                   We've observed very consistent  
18 characteristics in methyl esters produced from  
19 vegetable oils and animal fats, quite different than  
  
20 the variations in the components of diesel fuel  
21 because diesel fuel depends on sweet crude, heavy  
22 crude, light crude, whatever. These variations in  
  
23 emissions actually have contributed more of a problem  
24 to testing this in blends than anything else. It's  
25 not the fault of biodiesel. Biodiesel molecule is

1     very stable and very small.

2                   Furthermore, our research indicates that  
3     there is actually two, perhaps as much as three  
4     billion gallons of waste cooking oils and animal fats  
5     available for us just here domestically. To deny any  
6     blend of biodiesel fuel with regular diesel fuel seems  
7     to rather defy logic in light of the superior  
8     qualities and the tremendous success in over-the-road  
9     use and scientific laboratory tests that have been  
10    done on biodiesel, and it's been extensive.

11                  I have personally worked on biodiesel now  
12    for almost ten years. Our project started actually on  
13    my wife's kitchen counter at home, and we decided that  
14    we wanted to use the worst type of materials possible,  
15    the recyclables to see what can be done with those as  
16    feeding it into the fuel streams.

17                  The recyclables bring up a tremendous  
18    resource for us, and it's not only being recycled.  
19    It's a renewable material, all domestically derived.

20    So we're not looking for any foreign government  
21    transfer of wealth and other dealings that we have to  
22    worry about, draining the wealth of this country.

23                  We took the initiative to develop this,  
24    and actually we feel like we have given to the  
25    Department of Energy, to the environment, and to this

1 country what it was calling for as far as an alternate  
2 fuel goes. This is something that can be done  
3 completely at home here, and it's renewable and  
4 recyclable. It is not like oil. It is not like gas.  
5 Those are fossil fuels. They are depletable. We can  
6 go on growing this.

7 We also have a project underway for  
8 development of other domestically grown feedstocks  
9 that would be a little bit more efficient than just  
10 growing soybeans.

11 The biodiesel, as it's already been said,  
12 requires no expensive infrastructure changes. Earlier  
13 you had a fellow up here; I guess it was the first guy  
14 that talked, Richard --

15 PARTICIPANT: Kolodziej.

16 MR. REHBERG: Yeah, that guy. He's from  
17 the National Gas Vehicle Coalition, and you asked him  
18 a question about what it would cost for the  
19 infrastructure changes, and the man indicated that it  
20 would be very substantial, but at the present time his  
21 answer also indicated it wasn't really calculable.

22 I'm here to tell you that to implement  
23 biodiesel costs nothing. I mean we don't really have  
24 a problem with zero. Okay?

25 The cost to convert vehicles is

1 negligible, and in many cases nothing. I have run  
2 hundreds of different vehicles with almost any type of  
3 diesel engine you can come up with on biodiesel and  
4 have yet to make the first modification other than on  
5 a couple of occasions having to change the fuel filter  
6 in there because some of the cleaning effects or  
7 solvent effects of the biodiesel cleaned out the fuel  
8 line a little bit, but that's it. I don't think we  
9 spent \$100 on any of those.

10               Regardless of the percentage of biodiesel  
11 blended with regular U.S. 2D diesel, it does really  
12 improve the performance and the exhaust  
13 characteristics of the engine, and these performance  
14 or these improvements are actually sensorially  
15 realized. I mean you can see the reduction in smoke.

16 You can smell the difference in the smoke. You can  
17 hear the difference in the way the engine performs.

18               These are not subjectively perceived  
19 benefits, like I put some of this stuff in there and  
20 it cost me \$2 for this little bottle, so it must work  
21 better. You can actually see these results.

22               And one of these times I'm going to have  
23 to come up here and bring a few engines with me so you  
24 can actually witness this yourself.

25               Anyhow, we would encourage you to look in

1     our favor towards the B20 designation, and if you'd  
2     like to get a few hundred thousand vehicles on the  
3     road in the next year that are alternate fueled  
4     vehicles without really any cost them, we'll do it for  
5     you, and we're looking at a cost per gallon increase  
6     in the neighborhood of 15 to 20 cents.

7                 I know you've heard some other comments  
8     about 40 to 60 cents and 30 to 40 or 50 cents,  
9     whatever it is, but we have actually gotten the price  
10    of this stuff down to less than \$2.20 a gallon, and  
11    we're going south with it.

12                The other little announcement I wanted to  
13    make to you today about a major breakthrough in our  
14    technology is that we were going to announce our plans  
15    to put in place 41 new plants over the next 18 to 24  
16    months in various cities throughout the United States,  
17    and what has happened this week will allow us to more  
18    than double that in the next 18 to 24 months, and I  
19    want to tell you this most emphatically so that you  
20    really get the idea that we're serious about this  
21    business.

22                We're committing over \$500 million of our  
23    own money, not your money. I don't want a dime from  
24    you. Thank you very much.

25                MR. GROSS: I've got a question. I can't

1 let it go by.

2 MR. REHBERG: Questions already?

3 (Laughter.)

4 MR. REHBERG: I thought we had answered  
5 all the questions.

6 MR. GROSS: I'd like your comment on the  
7 issue of if we're going to be in the regulations  
8 business, would it make more sense to, instead of  
9 regulating on vehicles and percentages of vehicles in  
10 fleets, to regulate on the basis of amounts of  
11 alternative fuels used, which would, it seems to me,  
12 possibly get us away from the issue of percentages.

13 MR. REHBERG: Well, it would simplify the  
14 problem greatly. We could say: okay. You've got  
15 8,000 gallons of diesel in your tank. Here's 2,000 to  
16 blend with it and however you want to use it, and you  
17 know, the accounting procedure for that is rather  
18 simple.

19 MR. GROSS: All right. Other questions?

20 MR. McARDLE: Yes. You mentioned a  
21 production capacity of one billion gallons. Is that  
22 one billion gallons from using the used cooking oils  
23 and fats?

24 MR. REHBERG: Yeah.

25 MR. McARDLE: And it's not considering

1     other capacity of soybean?

2                   MR. REHBERG:  No, no.

3                   MR. McARDLE:  Okay.

4                   MR. REHBERG:  See, the thing that makes us  
5     a little bit nervous in some of this situation with

6     our going into the soybean market very heavily -- now,  
7     we do buy soybean oil.  We go in and we buy a half  
8     million or a million pounds of soybean oil at a time

9     and run it through our plant.  Okay?  But there is a  
10    certain amount of soybean oil for absolute use.  
11    There's a certain amount of soybean oil that you could  
12    use peanut oil; you could use something else.  And  
13    then there's maybe a surplus amount.

14                  But if we go and start dipping into all of  
15    the surplus amount and some maybe of the other part,  
16    but we get into the absolute part need, then we're  
17    going to drive the price of soybean oil through the  
18    roof and make the cost of biodiesel prohibitive, and  
19    what we're striving to do here is to take a source of  
20    monoglycerides, diglycerides, triglycerides, and fatty  
21    acids, no matter what they are.  It doesn't matter  
22    because we're coming out with the same molecule of the  
23    methyl ester and turn that into biodiesel fuel.

24                  MR. McARDLE:  Is there a large cost  
25    difference between making it from soybeans versus

1     using the used cooking oils?

2                   MR. REHBERG: Well, currently soybean oil  
3     costs about \$2 a gallon plus shipping. Okay? And we  
4     can actually get paid to take some of the used cooking  
5     oil as a means of disposal of it because under the  
6     Resource Conservation and Recovery Act, they don't  
7     want it in the landfills anymore and they don't want  
8     it land spread.

9                   We've also been working with Rotary  
10    International and things like that to get some of  
11    their Interact Clubs involved with us recycling the  
12    stuff, and we award scholarships to these kids and  
13    their schools for them to go to college on or for  
14    computers or other equipment that they need, and we  
15    get them involved in what is going on in the  
16    environment and recycling. We do hire buses. We  
17    bring them over to our plant. We tour them through  
18    there. We show them what it's all about, that it's  
19    real. It's not just some concept you read out of a  
20    book.

21                  MR. McARDLE: Now, when you collect this  
22    oil, say if you didn't process it for biodiesel, what  
23    do you do with it since you collect it, say, from  
24    restaurants or whatever? What is its next resting  
25    place?



1                   MR. REHBERG: Well, some of it goes into  
2 dog food. Most of the rest of it gets dumped because  
3 when you heat oil like that up to 350, 400 degrees and  
4 you put a french fry in it that's 88 percent water,  
5 the water in the french fry boils instantly. The  
6 bubbles you see are steam bubbles. There's a reaction  
7 that takes place between that super heated steam and  
8 the oil and causes the oil molecule to break apart,  
9 and when it does, it creates a fatty acid.

10                  And when you go into a restaurant and you  
11 smell that smell, oh, God, that old oil smell, what  
12 you're really smelling are the fatty acids, and once  
13 that gets up to about three or four percent, the oil  
14 becomes so stinky you don't really want to eat  
15 anything that was made in it. All right?

16                  And the oil continues to deteriorate after  
17 that point because these fatty acids are still working  
18 on the oil now. So it's deteriorating from within,  
19 and when it gets above 15 percent, you can't use it  
20 for animal feed because it makes the animal sick and  
21 they dehydrate. We won't go through the dehydration  
22 process.

23                  MR. McARDLE: Thank you.

24                  MR. GROSS: Thanks, Mr. Rehberg.

25                  MR. REHBERG: Thank you.

1                   MR. GROSS: Our next speaker is Mr.

2   Jeffrey Horvath of the National Biodiesel Board.

3                   MR. HORVATH: It's the biodiesel hour,  
4   isn't it?

5                   MR. GROSS: It sure is. It's the  
6   biodiesel afternoon.

7                   MR. HORVATH: Yeah. For those of you who  
8   don't know me, my name is Jeff Horvath, and I'm the  
9   Chief Executive Officer for the National Biodiesel  
10   Board.

11                   First off, I'd like to thank you for the  
12   opportunity to have myself and members of my team here  
13   today to address a lot of the biodiesel issues, too.

14                   I'm here specifically today to discuss  
15   biodiesel and how it can practically and effectively  
16   be used to allow DOE regulated fleets and the public  
17   in general really to actualize the objectives of  
18   EPAct.

19                   Using combustion to produce energy results  
20   in the destruction of natural resources and raw  
21   material used for fuel. Much effort is being expended  
22   by society to greatly limit or even eliminate  
23   combustion as a source of energy in order to conserve  
24   our precious natural resources.

25                   The problem with this approach is that

1     this same society has developed the base of its global  
2     energy infrastructure around combustion. We in the  
3     United States have added fuel to the fire, and no pun  
4     is intended, by building the majority of our energy  
5     infrastructure on petroleum based fossil fuels which  
6     we know some day will be depleted and on which we  
7     depend on foreign entities to supply.

8                 Price wars and real wars have been waged  
9     to insure that this infrastructure is supported. Our  
10    society must pursue technologies that complement our  
11    existing combustion based infrastructure, while  
12    simultaneously providing an alternate resource for the  
13    country's transportation fuel requirements.

14                For nearly two decades there's been a  
15    national policy to foster and use domestically  
16    produced renewable resources as a source of fuel.  
17    During the same period, the U.S. has also focused  
18    considerable legislation on our energy use's impact on  
19    the environment.

20                Biodiesel, a fuel similar to diesel fuel  
21    which you've heard all about in the last hour, is  
22    being actively promoted by the supporters of both  
23    agendas as a practical and positive medium for  
24    application of their respective charters.

25                Biodiesel is the generic term for a

1 cleaner burning ester based fuel which we've all heard  
2 about, and the biodiesel industry, albeit relatively  
3 new in the United States, is really implementing a  
4 fuel that has been used in other areas of the world,  
5 specifically in Europe, on a commercial basis for  
6 many, many years.

7               Petroleum based diesel and biodiesel have  
8 two things in common. Both fuels are a product of the  
9 earth, and both are burned to produce energy.  
10 However, the origin and the impact of their use  
11 greatly differentiate the two.

12               Biodiesel harnesses the energy that the  
13 earth naturally and cyclicly produces. Biodiesel is  
14 derived from agricultural produced vegetable oils,  
15 recycled cooking oils as we just heard, and rendered  
16 animal fats like chicken fat or beef tallow, whereas  
17 petroleum diesel is extracted from the earth.  
18 Biodiesel relies on the earth's natural cycles for its  
19 feedstock and, taken in the aggregate, it's a  
20 feedstock that never runs dry.

21               So it's a case of natural renewable versus  
22 depletion, and our culture obviates one over the  
23 other.

24               The infrastructure for biodiesel's use is  
25 homogeneous with that for diesel. Little or no



1     applications is not as straightforward. Biodiesel  
2     currently costs \$3 or above for a gallon in its neat,  
3     100 percent form, and this is at least double or  
4     triple the cost of petroleum based diesel.

5             However, if one considers the sum of  
6     vehicle or vehicle conversion costs, the expense of  
7     changes to existing infrastructure, the negative  
8     impact to operating costs required to incorporate the  
9     use of other alternative fuels, such as compressed  
10    natural gas, liquified natural gas, methanol or  
11    propane, biodiesel becomes a more cost effective  
12    solution.

13            Improvements in production processes, the  
14    development of multi-feedstock production formula,  
15    increased production volume, et cetera, will all serve  
16    to reduce the unit cost of biodiesel. Consequently,  
17    the balance of biodiesel versus other alternative  
18    energy sources in a business case is achievable.

19            Biodiesel's unique ability to blend  
20    completely with petroleum based diesel provides  
21    another opportunity for the economics of its use.  
22    Biodiesel can complement diesel fuel when used as an  
23    additive to diesel. In small quantities, less than  
24    five percent per unit, biodiesel offers specific  
25    lubricity and C-tane enhancements to fossil based

1 diesel fuel. In greater blends, 20 percent and above,  
2 biodiesel and petroleum diesel blends meet the basic  
3 intent of EPAct, displacement of petroleum, and the  
4 Clean Air Act, reduction of diesel particulate matter  
5 and toxic emissions.

6 Biodiesel blends afford the consumer of  
7 biodiesel the flexibility to set a blend level that's  
8 conducive to the economics of their application and  
9 phase in increased levels as the economics of  
10 biodiesel production improve.

11 If we examine this issue on the basis of  
12 consumer choice for alternative fuels in vehicles, the  
13 20 percent biodiesel blend known as B20, which I'm  
14 sure you're aware of, is our customers' most popular  
15 biodiesel fuel blend. The NBB has tested this case  
16 with major diesel consumers and engine manufacturers.  
17 They have demonstrated that B20 provides many of the  
18 environmental and safety benefits of pure biodiesel at  
19 a fraction of the cost. They've shown that B20 is  
20 compatible with existing diesel engine maintenance and  
21 refueling facilities, and most importantly, they've  
22 proven that there's an adequate infrastructure in  
23 place to support B20's immediate use.

24 More than ten million miles of actual in-  
25 service pilot programs have been conducted using B20.

1     Several national trade associations representing major  
2     private diesel consumers, including the American  
3     Trucking Association, the American Bus Association,  
4     have endorsed using B20 as an EPAct alternative fuel.

5             For these reasons B20 should substantially  
6     increase the number of alternative fuel vehicles  
7     available to meet the requirements of all phases of  
8     the EPAct program.

9             Biodiesel has been demonstrated and tested  
10    in many applications, including transit, marine,  
11    mining, and construction markets. Aviation, power  
12    generation, as well as its use as an additive in  
13    various low blends with petroleum diesel are all being  
14    actively explored.

15            NBB recognizes DOE's fuel neutrality with  
16    respect to EPAct compliance. However, DOE's increased  
17    cognizance and support of the biodiesel message and  
18    the opportunities it presents will afford municipal  
19    and private fleets greater understanding and  
20    acceptance of their ability to comply with the third  
21    phase of the alternate fuel transportation program  
22    proposed under this advance notice for public  
23    rulemaking.

24            Increased use of biodiesel will be good  
25    for the environment, good for farmers, good for the



1 economy, and will augment our regulated fleets'  
2 ability to meet the objectives of EPCa.

3 Biodiesel alternative fuel vehicles can  
4 offer a cost effective means of compliance with the  
5 many provisions of EPCa. Biodiesel provides  
6 additional opportunities for economic development  
7 through the sale of the its various feedstock  
8 commodities in the construction of biodiesel  
9 production facilities. All in all, biodiesel can and  
10 should play a major part in meeting the goals of  
11 EPCa.

12 The commercialization of biodiesel  
13 requires significant and continued involvement from  
14 its stakeholders. Technology development and  
15 production processes, handling and storage, as well as  
16 fuel engine systems is also in order. The government,  
17 as well as the private sector, need to take an active  
18 role in these elements in order to bridge the cost gap  
19 and foster the advancement of needed science.

20 It is the charger of the National  
21 Biodiesel Board to act as the principal liaison  
22 between the stakeholders in this effort. One of those  
23 stakeholders is the DOE itself. The NBB is actively  
24 involved with the DOE's own biodiesel program from the  
25 Transportation Technologies Division to the NREL and

1 RBEP Programs.

2 We support the charter of the DOE and its  
3 efforts, as we do all of our industry stakeholders.  
4 We hope that by presenting the information today that  
5 it will demonstrate the viability of this fuel, its  
6 inherent ability to overcome the challenges of  
7 introducing an alternate fuel to the diesel segment of  
8 this marketplace, the opportunity it presents to the  
9 Agency for actualization of its goals and the fuel  
10 capacity to bring EPAct into operational reality.

11 I'd like to thank you for giving me the  
12 opportunity to speak today, and I'd like to take a  
13 moment to address at least a couple of the points that  
14 were asked about earlier, and if Ms. Lewis is still in  
15 the room, I'll certainly address those as well.

16 Mr. McArdle, you asked about installed  
17 capacity. As of five o'clock on the 10th of October  
18 1996, it's somewhere between 70 and 80 million gallons  
19 in the United States. That's installed capacity, and  
20 it's growing as we heard about.

21 You also asked about the ASTM. The ASTM  
22 has been developed for neat biodiesel. It's based  
23 essentially on the norm from Austria and Germany  
24 where, by the way, they've got 500,000 metric tons of  
25 biodiesel sale last year; also, the send norm of

1 France; Italy, where they had about a million metric  
2 tons of biodiesel sales last year, and input from the  
3 Engine Manufacturers Association, and OEMs.

4 We have an ASTM task force that's multi-  
5 disciplined in its nature, in its constituency, and  
6 we're hoping for at least the balloting process in  
7 June of this year and then it's anybody guess after  
8 that.

9 The rest of these were Ms. Lewis'  
10 questions. So I can certainly -- let me just address  
11 them to give them as a matter of the record.

12 B-5, the price on B-5 really is not a  
13 function of it being a fuel. At the five percent and  
14 below level we're in the additives market, and in the  
15 petroleum additives market, we are very cost  
16 competitive. You've heard prices of \$3. Call it \$4  
17 for all intents and purposes a gallon. In that market  
18 you're looking nine to 25 gallons for the chemical  
19 additives. We're looking at C-tane enhancement and  
20 lubricity. So we're very cost competitive there.

21 In terms of clean fuels and the EPA, there  
22 is not an EPA certified clean fuel fleet vehicle for  
23 biodiesel at this particular point in time, and it's  
24 premature really at this point for us to go ahead and  
25 pursue that particular aspect, considering other

1 elements of the EPA that we have to deal with.

2 Specifically, about a million and a half dollars worth  
3 of health effects testing that I have to get done and  
4 another \$1.8 million worth of substantially similar  
5 waiver activity that I've got to get done with EPA  
6 before January 1st, 1998.

7               Given that we're a small industry and I  
8 don't represent significant corporate dollars, that  
9 places my priority squarely with those two efforts,  
10 but the caveat is if you've got a few million you want  
11 to throw away, I'm always available to talk.

12               So any questions?

13               MR. GROSS: Unlike the immediately  
14 preceding speaker, you would not tell us that you  
15 don't want a dime.

16               MR. HORVATH: I'm easy that way. I can be  
17 had.

18               (Laughter.)

19               MR. GROSS: Questions?

20               MR. RODGERS: I just had one question.  
21 We've heard some testimony this morning that one of  
22 the problems with flexible fuel vehicles and bi-fuel  
23 vehicles is that the people that buy these vehicles  
24 and meet their EPA requirement then turn around and  
25 fill them up with gasoline.

1                   MR. HORVATH:  Sure.

2                   MR. RODGERS:  So in the future if B20 ever  
3   was designated as an alternative fuel, and I've heard  
4   testimony that the B20 operates in any diesel vehicle,  
5   therefore, it seems to me then that by designating B20  
  
6   as an alternative fuel we have, therefore, designated  
7   all diesel vehicles as alternative fuel vehicles.

8                   MR. HORVATH:  No, that's not exact --

9                   MR. RODGERS:  Okay.  Why wouldn't people,  
10   fleets that were covered, if there ever was a fleet  
11   mandate, why wouldn't they just buy a diesel vehicle  
12   and fill it up with 100 percent petroleum based  
  
13   diesel?

14                  MR. HORVATH:  Well, they could, and I  
15   guess two points really.  The first one is if you  
  
16   designate B20 as an alternative fuel, it doesn't  
17   immediately cause every diesel vehicle on the planet  
18   to become an alt. fuel vehicle.  It gives them the  
19   capability of being designated as such under EPAct.

20                  The people that define whether or not this  
21   is an alt. fuel vehicle are the folks that made the  
22   vehicle.  So what it does is it gives me the  
  
23   flexibility, me being the biodiesel industry, to go to  
24   the original equipment manufacturers, the engine  
25   manufacture, the vehicle manufacturers and say, "Look.

1       We've got something that provides me the business case

2       I need to market the product, and, oh, yeah, by the  
3       way, look behind. There's a line of customers."

4                So that's the key to it all. We've been  
5       caught in a Catch-22 situation wherein the people that

6       we have demonstrated these ten million miles I  
7       referred to earlier, biodiesel with have said, "That's  
8       all great. I like it. It's green; it's clean, and it

9       could give me some benefit if I could get a blended  
10      level and I would go with you then because I have the  
11      business case I need. I would go with you then to the  
12      OEMs and say, 'Yeah, I want to buy one of those buses

13     and I want you to call it biodiesel capable.'"

14                So I've got an engine manufacturer that  
15      says, "Show me customers and I'll go away and do the  
16      research necessary to tell EPA that it's going to meet  
17      emission requirements," and I've got a customer that's  
18      saying, "Tell me it meets the regulation and I'll go  
19      away and talk to the OEMs."

20                So by DOE doing that, it gives me yet  
21      another lever to go away and try to get the OEMs on  
22      board.

23                MR. RODGERS: Okay. So then if you did  
24      that, you'd have a vehicle certified to operate on B20  
25      which would really be kind of a flexible fuel diesel

1     vehicle.  I don't want to put words in your mouth, but  
2     that's what it sounds like to me.

3                 MR. HORVATH:  Well, what I'm hoping is  
4     that whether the level -- I mean, the whole strategy  
5     with B-5, B20, B-30, B-40, B-50 -- take it up to B-100  
  
6     -- is I don't think anybody should be so naive as to  
7     think that when we get to a certain level that we're  
8     all going to close the doors and go on our way and  
  
9     say, "That's it."

10                The chinning bar is going to continuously  
11     be raised whether you're talking EPA or you're talking  
12     to charter of the DOE.  So it's nice to posture  
  
13     yourself in a position where you can phase in the  
14     implementation and the use of alternate fuels.

15                Biodiesel inherently allows you to do that  
  
16     in the petroleum market as a complement to petroleum  
17     diesel.  So you can do this over time and continually  
18     raise the chinning bar and allow your customer and the  
19     public the opportunity to comply.

20                MR. RODGERS:  I'm sorry.  I don't want to  
21     belabor it, but is there anything we can do to keep a  
22     fleet that had a certified biodiesel vehicle from  
  
23     using petroleum based diesel in that vehicle?

24                MR. HORVATH:  Limit the emissions  
25     capabilities, opacity.  The output of the engine is

1 the way to tell what blend level he's using.

2 MR. RODGERS: It doesn't sound like it's  
3 anything we can do here at the Department of Energy in  
4 the Energy Policy Act.

5 MR. HORVATH: Mandate switching, and  
6 again, I think a gentleman earlier pointed out that we  
7 need to have better measures in place to track the use  
8 of the fuel. That certainly is point one.

9 Point number two is what's the follow-up.  
10 What's the insurance policy, the emissions profile of  
11 the engine?

12 MR. RODGERS: Thanks.

13 MR. HORVATH: Thank you.

14 MR. GROSS: Thank you, Mr. Horvath.

15 Well, for the benefit of the members of  
16 the panel, as well as anyone else who's been here all  
17 afternoon, just a reminder that we are getting close  
18 to the last scheduled hour of the hearing. So it  
19 looks like we'll be able to make it.

20 Our next speaker is Marsha Wise,  
21 representing the Service Station Dealers of America.

22 MS. WISE: Now that I look like Kilroy  
23 here, but I'm back here.

24 I want to preface this presentation by  
25 saying this is my first time testifying. So please be



1     gentle.

2                   Good afternoon. My name is Marsha Wise.  
3     I am the manager of Federal Government Affairs for the  
4     Service Station Dealers of America and Allied Trades.  
5     SSDA represents approximately 60,000 independent  
6     service station dealers across America.

7                   I appreciate this opportunity to testify  
8     today regarding the Department of Energy's proposed  
9     requirements for private and local government vehicle  
10    automobile fleets.

11                  The Energy Policy Act of 1992 included a  
12    mandate for the purchase of alternative fuel vehicles  
13    by certain fleets. Although this is not the forum for  
14    doing so, I would be negligent if I did not state  
15    SSDA's strong opposition to mandates in general that  
16    interfere with the free market system on which this  
17    country was founded.

18                  Now, allow me to comment on the rule DOE  
19    has proposed. First, the proposed rule is overly  
20    broad and goes well beyond the original intent of  
21    Congress. By defining alternative fuel provider  
22    broadly, DOE's proposed mandate will cover many, many  
23    more businesses than Congress ever intended.

24                  These businesses will have to purchase and  
25    operate vehicles on fuels other than gasoline at a

1     significant increase in cost. Currently very few  
2     service station dealers provide non-gasoline fuels.  
3     So they would lose the business of the many fleet  
4     vehicles that would be covered by this mandate.

5             Because fleet customers are important to  
6     the profitability of many dealers, the potential loss  
7     of business is of great concern. Indeed, according to  
8     DOE's own estimates, my members stand to lose 760  
9     million to 3.3 billion gallons of lost sales under  
10    this rule.

11            Many fleet operators recognize the high  
12    cost of operating their own central refueling systems,  
13    the potential environmental liability, and the  
14    burdensome regulatory requirements. For these  
15    reasons, many fleet operators rely on service station  
16    dealers for their transportation fuel needs.

17            Our members have met these special needs  
18    by offering creative services, such as extended hours,  
19    convenience service, or even specialized fleet credit  
20    cards that provide fleet operators detailed reports  
21    regarding fuel consumption in order to retain the  
22    fleet business.

23            Under the proposed rule which broadly  
24    extends to many fleets, our dealers will have to make  
25    a difficult choice: either lose the fleet business or

1     make a costly investment to provide exotic fuels.

2                   We feel that forcing the investment in an  
3     infrastructure for alternative fuels is simply  
4     unreasonable.  Rather than forcing investments in a  
5     modest fashion that hopefully can be accommodated by  
  
6     the marketplace, the proposed rule will have a  
7     sweeping adverse effect on thousands of small  
8     businesses which are my members.

9                   There's a good reason that the  
10    infrastructure investment for alternative fuels has  
11    not been made to date.  In most instances it is not  
12    economic to do so.  Dealers are astute small business  
  
13   people who often operate on tight profit margins and  
14   small budgets.  If a reasonable rate of return could  
15   be made by supplying alternative fuels, the dealers  
  
16   would already be doing so.

17                  For example, there is no reasonable rate  
18    of return on 250,000 or \$500,000 CNG refueling  
19    equipment installation at a service station.  The  
  
20   recent DOE report estimated that by the year 2010, 13  
21   years from now, only 41 percent, less than half of all  
22   vehicles sold, will be alternatively fueled.  Of that  
  
23   41 percent, only seventeen percent will be CNG fueled.

24                  Second, SSDA does not feel that the Energy  
25    Policy Act's replacement fuel goals are necessary.

1     Alternative fuels run a greater risk of supply  
2     limitations than crude oil and gasoline, as we have  
3     recently seen with both ethanol and methanol.  
4     Although U.S. oil imports are projected to increase,  
5     the oil markets have dramatically changed since the  
6     1970s.

7                 Less than nine percent of U.S. petroleum  
8     comes from the Persian Gulf region. With competitive  
9     producers in countries such as Mexico, Canada, Latin  
10    America, Asia, and the North Sea, it would be very  
11    difficult for one country to sustain an artificially  
12    high price for oil.

13                I urge DOE to narrow the scope of the  
14    proposed rule to cover only those alternative fuel  
15    providers who actually profit from the manufacture and  
16    sale of alternative fuels. This will avoid a serious  
17    economic dislocation for SSDA members.

18                Third, I urge DOE to reconsider the  
19    effective date of the mandate. It is totally  
20    unrealistic to expect the dealers, much less the fleet  
21    operators, can respond in this short time frame.

22                Congress intended to provide the affected  
23    industries with ample time to prepare for and comply  
24    with mandates. Given the DOE's lengthy delay in  
25    issuing a rule, I believe a postponement of the

1       effective date is a reasonable request.

2                   Thank you, again, for this opportunity to  
3       express SSDA's views.

4                   Questions?

5                   MR. GROSS:  Well, we're pleased to be the  
6       first to receive your testimony at a hearing.

7                   Questions?

8                   MR. McARDLE:  Just one.  It's actually a  
9       comment.  Again, I sound like a broken record.  I'll  
10      say this again.  You cited a DOE report that estimates  
11      41 percent of all vehicles sold will be AVFs and 17  
12      percent will be CNG fueled.  Again, that's from  
13      technical report 14, which is really a conditional  
14      projection of AVF production and use, given certain  
15      assumptions regarding vehicle availability.  It's part  
16      of our technical evaluation under Section 502(b),  
17      which we're following up with another analysis.

18                   More modest projections are given by the  
19      Energy Information Administration which are more in  
20      tune with just the mandates and what those would do.

21                   I just want to throw that out there.

22                   MS. WISE:  I look forward to seeing the  
23      new numbers.

24                   Thank you.

25                   MR. GROSS:  I just have to make one

1     comment.  I assume that in the context of your  
2     testimony that natural gas and methanol, say, would be  
3     exotic.

4                   MS. WISE:  Yes.

5                   MR. GROSS:  I've heard them referred to as  
6     many things, some positive and some negative, but I  
7     guess that's the first time I've heard them referred  
8     to as exotic.  So that may be some interesting topic  
9     for debate right there.

10                  MS. WISE:  If anything, it makes them sexy  
11     to sell.

12                  MR. GROSS:  But costly, as you would point  
13     out, I guess, right?

14                  Okay.  Our next speaker is Mr. Russ Teal.

15                  PARTICIPANT:  You get the best looking --

16                  (Laughter.)

17                  MR. TEAL:  I appreciate that.  My son gets  
18     good grades.  He uses the same equipment for his  
19     school project.  So I appreciate that.

20                  It's a pleasure to be up here today from  
21     the Florida Keys.  I appreciate the nice weather  
22     you've arranged for us.  I know how dreary it can be.  
23     I've tried to work in Washington for a couple of years  
24     many years ago.

25                  I'm actually up here for the Annapolis

1     Boat Show, and I wanted to take the opportunity to  
2     come by and share some of my experiences we had in the  
3     Florida Keys with biodiesel on my way to the show.

4             Actually at the show we will be exhibiting  
5     for the first time two biodiesel products to the  
6     marine industry in a nonmandated market. These are  
7     consumers that have voluntarily chosen to use this  
8     fuel.

9             During the past two years, my company has  
10    undertaken extensive market research into the use of  
11    biodiesel fuels in nonmandated consumer markets,  
12    specifically for marine use in the Florida Keys and  
13    Chesapeake Bay. I believe my experience may help you  
14    determine how best to meet some of EPA's policy  
15    objectives.

16            If the objective of EPCA is ultimately to  
17    reduce our dependence on foreign petroleum and to  
18    stimulate the creation of domestic fuel alternatives,  
19    there is a ready inclination for consumers and private  
20    fleets to use biodiesel blended fuels. Our research  
21    found that private boat and vehicle owners liked  
22    biodiesel for its environmentally friendly values,  
23    reduced smoke, increased C-tane and lubricity, and  
24    solvency characteristics.

25            However, price was a major constraining

1 factor. In our most recent research, we have found  
2 that B20 can be effectively marketed to consumers in  
3 order to overcome price reticence. In particular,  
4 we've been using the NOPAC product blended with  
5 petroleum, and we've been able to sell it at the  
6 commercial rates in Florida. Even though the diesel  
7 fuel tax changed nationally recently, Florida is the  
8 only state in the union to continue the two alternate  
9 structures of recreational and commercial diesel fuel.  
10 So we've been pricing our biodiesel blend, a ten  
11 percent blend, at roughly five to ten cents a gallon  
12 more than what is available commercially at the fuel  
13 docks.

14 So our strategy has been to try to  
15 position it as a premium fuel. The differential is  
16 similar to the difference between a regular gasoline  
17 and a premium gasoline.

18 The use of alternative fuels by private  
19 and public fleets would be greatly enhanced with the  
20 approval of B20. The objective of reducing dependence  
21 on foreign oil is achieved equally well by having 20  
22 percent of a fleet using B-100 or 100 percent of a  
23 fleet using B20.

24 One of the added benefits, which may be  
25 beyond EPA's mandates, but are clearly within the



1 Clean Air Act and other federal policies is that you  
2 get 50 percent of the pollution control  
3 characteristics by using a B20 blend. In other words,  
4 that incremental 80 percent, you're only increasing  
5 the efficacy of the fuel as a pollution reduction to  
6 achieve that small incremental cost, incremental  
7 achievement. So you can actually get greater air  
8 pollution control characteristics by spreading the  
9 same amount of fuel in a 20 percent blend over many  
10 vehicles as opposed to concentrating a 100 percent  
11 blend in one vehicle.

12 The use of B20 requires no engine  
13 modifications, new fuel storage or pumps, or  
14 retraining of mechanics. It is obviously the low cost  
15 alternative fuel strategy.

16 Why not couple the approval of B20 fuel  
17 for private fleets with a mandatory use requirement?  
18 Money saved on infrastructure costs could be diverted  
19 to the purchase of B20. This would be a real  
20 reduction in the dependence on foreign oil versus  
21 mandating the purchase of flexible fuel vehicles, but  
22 not requiring the actual use of alternative fuels.

23 Finally, some consideration should be  
24 given to including boats of vessels in new definition  
25 of fleets. In the Florida Keys, many state and

1 federal agencies have diesel powered vessels as part  
2 of their combined fleets of vehicles and vessels.  
3 Because of the environmentally sensitive coral reefs  
4 which surround our islands, many of these vessels  
5 would use biodiesel as part of their EPCa compliance  
6 strategy if they were permitted to do so.

7 NOAA's Florida Keys National Marine  
8 Sanctuary office in Key Largo currently fuels its  
9 three diesel powered vessels, research vessels, with  
10 B20. By including B20 in vessels under EPCa with  
11 your rulemaking authority, other public and private  
12 fleets in our coastal areas would be encouraged to  
13 follow NOAA's example.

14 This would also have the added impact of  
15 increasing lines of supply. Even though you're  
16 concerned with regulated fleets, by making the fuel  
17 financially viable in those markets, you're also  
18 making it available to consumers who have a proclivity  
19 to want to use it. So you'd be stimulating not only  
20 your mandated fleets, but consumers to use it as well.

21 Our dependence on foreign oil as a result  
22 of these new policies would be reduced, and our marine  
23 environment would be better protected.

24 Thank you.

25 MR. GROSS: Thank you.

1                   It occurred to me perhaps we ought to have  
2   a fourth hearing on the boats so we could get a  
3   demonstration of the fuel at the same time.

4                   MR. TEAL:  Hey, I say I could extend an  
5   invitation to you to come over to the Annapolis Boat  
6   Show during the weekend.  We'll have several biodiesel  
7   powered vessels available for use.

8                   MR. GROSS:  Counsel would probably have  
9   something to say about that idea.

10                  (Laughter.)

11                  MR. GROSS:  Questions?

12                  MR. RODGERS:  Just a quick one.  If you've  
13   got any lawyers that work with you that would give us  
14   specific places in the Energy Policy Act where we  
15   could extend the mandate to vessels, I'd be interested  
16   in seeing that kind of thing.

17                  MR. TEAL:  Okay.

18                  MR. RODGERS:  And then, of course, we'll  
19   show it to our lawyers.

20                  MR. TEAL:  Thank you.

21                  MR. GROSS:  All right.  Thank you very  
22   much.

23                  Our next speaker is Karen Miller.

24                  We're trying to outdo each other on the  
25   handouts here.

1 MS. MILLER: I'm pleased to have the  
2 opportunity to speak with you today in support of B20.  
3 I'm Karen Miller, Vice President of Market Development  
4 for NOPEC Corporation, and I'm glad to speak to you  
5 also as a citizen of the State of Florida.

6 First of all, when I speak to people, I  
7 normally invite them to sit down, but I currently am  
8 so amazed at your ability to sit there all day that if  
9 you would care to stand during my remarks, please feel  
10 free to.

11 (Laughter.)

12 MS. MILLER: In fact, I'm glad I get to  
13 stand.

14 Okay. Petroleum consumption in the United  
15 States is growing. Consumption of diesel fuel is  
16 growing twice as fast as gasoline consumption. If the  
17 Department of Energy truly intends to decrease this  
18 country's reliance on foreign oil imports through  
19 EPAct, then it's time to get started.

20 B20 is the path of least resistance to  
21 America's fuel tanks. In addition, the environmental  
22 and economic benefits of B20 alone are significant  
23 enough to justify an affirmative action. EPAct has  
24 been crafted to produce winners. Car makers get to  
25 make advanced vehicles. Natural gas interests and

1 electric interests get to provide transportation fuels  
2 that are domestically produced, though mostly  
3 nonrenewable.

4 But when the rubber meets the road,  
5 there's one loser: the American taxpayer-consumer.

6 EPOact has significant barriers to implementation. In  
7 the most simple of terms, these barriers are  
8 technology, dollars, and decision-makers.

9 Today we've heard the technology barriers  
10 decision-makers face. In addition to technology, the  
11 up-front costs of the infrastructure for these  
12 technologies keep decision-makers from implementing  
13 the intent of EPOact in America's fleet.

14 Without B20, I foresee that EPOact  
15 implementation will be postponed indefinitely because  
16 of the T-card, because the existing focus on electric  
17 vehicles and natural gas, the technology card, will be  
18 the excuse for America's fleet managers to put off  
19 until tomorrow what could and should be done today.

20 B20 can serve as a powerful catalyst for  
21 all alternative fuel technologies because it can be  
22 safely implemented right now with negligible  
23 infrastructure cost. Providing the ability to achieve  
24 EPOact goals will serve to motivate all players to  
25 redouble their efforts.

1                   Approval of B20 means an increase in  
2   healthy competition among alternative fuel providers,  
3   which helps our country decrease dependence on foreign  
4   oils in ways that make economic and environmental  
5   sense.

6                   B20, like neat buyer diesel, addresses the  
7   need of America's transportation backbone, diesel  
8   engines. These engines have carried Americans for  
9   nearly a century. These are the engines and  
10   technology American fleet managers know and trust. If  
11   neat buyer diesel had been approved as an alterative  
12   fuel, then why B20? B20 is the quickest and easiest  
13   way to decrease aggregate petroleum diesel  
14   consumption. It's that simple.

15                  I've dealt with the people side of the  
16   implementation of conservation decisions for 20 years.  
17   In fact, that's exactly what my Ph.D. research  
18   examined. The bottom line is for the most part,  
19   Americans want to do the right thing, but they want to  
20   do it with the least possible risk.

21                  It is the intent of EPAct to let the  
22   market drive future configurations of America's fleet  
23   fuel usage rather than mandate it. In doing that,  
24   individual decision-makers with individual fleets have  
25   to make a decision on vehicles and the fuel a fleet

1 would use to meet EPAct.

2           The reality of the situation, the current  
3 choices are too risky. What individual wants to risk  
4 their job or their credibility because they were  
5 backed up against the wall to make a fueling decision  
6 that they did not feel confident was the right one?  
7 Downsizing in corporate America or in government  
8 agencies does not support risk takers.

9           B20 is the alternative fuel decision the  
10 individual fleet manager can make without positioning  
11 himself or his organization -- in other words, he can  
12 position himself with the least exposure. It is a  
13 decision that can be made today, and for a centrally  
14 fueled fleet, availability is not an issue. Mr.  
15 Horvath addressed that a moment ago.

16           The petition for B20 presents the facts.  
17 This testimony presents a supportive view. In  
18 addition to my comments on B20 as a least risk  
19 decision, I would like to talk to you about my  
20 feelings on B20 as a Floridian.

21           Historically Florida has imported 99  
22 percent of its petro-energy resources. In Florida,  
23 biodiesel and B20 would give our state the opportunity  
24 to develop untapped resources. We produce 1.3 million  
25 bushels of soybeans that could power a fleet of light

1 duty diesel pick-up trucks 41 million miles each year.

2 But maybe more significantly, our next  
3 Prudhoe Bay already exists as a byproduct of the  
4 Florida tourist industry. We had no biodiesel  
5 production capacity until a determined entrepreneur  
6 struck oil in central Florida. NOPEC Corporation is  
7 under negotiations with a major central Florida theme  
8 park to pump oil from waste containers behind a  
9 restaurant, and, yes, this one source of oil is  
10 equivalent to 7,000 barrels a month, no drilling, no  
11 tax incentives, no damage, just recycling.

12 It is a second use for America's vegetable  
13 feedstocks. As long as Florida continues to offer  
14 exceptional tourist value, this kind of oil well will  
15 not run dry. After all, we have over 40,000  
16 restaurants.

17 We have just begun this oil exploration.  
18 In an agreement with the Florida Restaurant  
19 Association, we are beginning to collect restaurant  
20 fryer oil across the state from cooperating  
21 restaurants who donate their used oil to the  
22 educational foundation of the Florida Restaurant  
23 Association. The foundation then provides curriculum  
24 materials for the association's school-to-work  
25 program.



1                   Talk about your win-win. Oil is  
2   discovered in Florida. Restaurants get rid of a  
3   potential waste problem. Education and students are  
4   helped. A fuel is produced which has fewer emissions,  
5   better performance, and is environmentally friendly.

6                   B20 is the key to getting this win-win  
7   moving rapidly in Florida and on a nationwide basis.  
8   NOPEC's processing plants were designed and financed  
9   entirely with risk based capital. Just hard working,  
10  determined people who discovered oil in central  
11  Florida.

12                  I love, as well as live, in one of the  
13  nation's treasures, the State of Florida with some of  
14  the world's best beaches. Florida is little more than  
15  a strip of sand surrounded by water. Yet we are able  
16  to produce many of the nation's winter vegetables and  
17  entertain countless tourists. Both of these  
18  industries depend on a clean environment.

19                  Approximately 200 million gallons of  
20  petroleum derived products are lost into the nation's  
21  marine environment each year. In a state surrounded  
22  by beaches, this is a problem.

23                  Four years ago I was lucky enough to be  
24  enjoying a day at the beach on the lovely west coast  
25  of Florida. I looked out at the horizon toward one of

1     our hidden jewels, Fort DeSoto Park, and saw billows  
2     of black smoke. Later the headlines filled me in.  
3     Tanker hit by a barge, oil everywhere. Millions of  
4     dollars in clean-up; beaches covered. Tourists  
5     avoiding the area. Birds, fish dying, and eventually  
6     I learned first hand my tar and oil free beach would  
7     be marred for years.

8                 This was no Exxon Valdez, but it was the  
9     type of thing that occurs all too often in our  
10    country.

11                Not only would I personally like to see  
12    the reduction of foreign oil imports, but home-grown  
13    biodiesel has benefits that go beyond dollars.  
14    Biodiesel has the biodegradability of sugar and one-  
15    tenth the toxicity of table salt. As a citizen of the  
16    sand peninsula, this pleases me.

17                Fewer headlines from oil spills would  
18    please me. As a mother of young, military age men,  
19    fewer lines in the sand to protect oil would please  
20    me.

21                Does U.S. DOE want to make alternative  
22    fuels work? I think so. For 25 years I've watched,  
23    researched, and worked with renewable energy resources  
24    and energy conservation issues. Without a doubt, B20  
25    is one of the easiest paths to the use of renewable

1 energy I've ever seen.

2 The only resistance that I can imagine is  
3 that it's too easy. Biodiesel and B20 aren't rocket  
4 science. It uses the KISS principle, and as  
5 scientists, are we willing to admit that, yes, we can  
6 keep it simple?

7 Thank you for your time.

8 MR. GROSS: Thank you.

9 At this hour, after all the testimony  
10 related to biodiesel this afternoon, can there  
11 possibly be any questions left?

12 MS. MILLER: I'm glad I'm last.

13 MR. GROSS: I guess not. Thank you again.

14 MS. MILLER: Thank you.

15 MR. GROSS: Our next speaker is Michael  
16 Leister, Marathon Oil Company.

17 MR. LEISTER: Good afternoon. My name's  
18 Mike Leister. I am the Fuels Technology Coordinator  
19 with Marathon Oil Company.

20 Marathon's the nation's ninth largest oil  
21 refiner. We have large reserves of natural gas. We  
22 have compressed natural gas service stations, and  
23 until recently when the prices of ethanol went up, we  
24 were the nation's largest blender of ethanol into  
25 gasoline.

1           As you can see, we're not opposed to  
2   alternative fuels or alternative fuel vehicles. We  
3   think there are many niches and many places where they  
4   make a lot of sense.

5           However, we are opposed to the government  
6   mandating which types of vehicles and types of fuels  
7   people have to use. The government shouldn't be in  
8   the position of selecting a particular technology that  
9   it feels is appropriate for its citizens and then  
10   forcing private and local fleets and governments to  
11   purchase that technology.

12           Eventually each of these fuels and vehicle  
13   combinations have to survive on their own in the  
14   marketplace, and they will do that, and the  
15   marketplace will select who the winners and losers  
16   are, not the government.

17           It's difficult for the government to know  
18   what is the right technology and the right fuel for a  
19   particular marketplace. You've heard some people  
20   today who have said without any government money they  
21   can make biodiesel work, and at a certain level they  
22   can. If you mandate biodiesel at a higher level, that  
23   brings in more expensive sources and drives the price  
24   up for everyone.

25           You know, it's very difficult for the

1 government to pass a law, draw a line, and know that  
2 that is the optimum line for the economy because the  
3 economy is going to grow, detract, decrease at some  
4 times, and the optimum level is going to move around.  
5 So it's very difficult for you guys to actually start  
6 mandating certain numbers and certain levels, not  
7 knowing what the other effects and how the economy and  
8 how businesses and governments react to that.

9           The proposed regulation that we're talking  
10 about would basically force local businesses and  
11 governments to convert their fleets to AVFs without a  
12 whole lot of real tangible benefits, but the mandates  
13 would allow certain vehicles and certain special  
14 interests to make some money at the expense of other  
15 people in the transportation area, and eventually when  
16 the government support is withdrawn, those areas are  
17 probably not going to be the areas that are going to  
18 succeed in the marketplace.

19           Let the marketplace do what it's supposed  
20 to do and help determine the right solution and move  
21 that way.

22           This regulation purports to help America  
23 with energy security, quote, unquote, and a reduction  
24 in imports, but even your own feasibility study with  
25 some bias in the models and some slants in the

1     assumptions can't show a significant reduction in the  
2     amount of imports, and they don't provide any  
3     additional energy security when you look at the places  
4     where those alternative fuels are going to be brought  
5     in as they are imported into the U.S.

6                 So if we have such few tangible benefits,  
7     why are we going through this whole process? Who  
8     wins? A handful of special interests. Who loses? We  
9     all lose, every taxpayer, every company, every local  
10    government, the states. Even the federal government  
11    loses money, loses efficiency, and loses their  
12    competitive edge.

13                Now's the time for DOE to look at their  
14    study, admit that they're never really going to  
15    achieve the 30 percent replacement of petroleum based  
16    fuels by 2010, and it's probably not a desirable  
17    effect on the economy.

18                You need to get out of the mandate  
19    business and let the marketplace determine how and  
20    when petroleum fuels will be replaced, and they will  
21    be replaced.

22                Regarding this advanced notice of proposed  
23    rulemaking, DOE should not implement the mandates for  
24    private and local government fleets either in your  
25    early rulemaking phase or the regular rulemaking

1 phase.

2 Thank you.

3 MR. GROSS: Thank you.

4 Questions, comments?

5 (No response.)

6 MR. GROSS: Everybody is tuckered out, I

7 guess.

8 MR. LEISTER: Questioned out.

9 MR. GROSS: Right.

10 MR. LEISTER: Thank you very much.

11 MR. GROSS: Thank you.

12 Okay. We do have another speaker who has

13 asked for some time this afternoon. David Holt on

14 behalf of the Clean Fuels Development Coalition.

15 MR. HOLT: I want to thank you all for

16 indulging one more speaker. I know it's been a long

17 day.

18 My name is David Holt, and I'm here on

19 behalf of the Clean Fuels Development Coalition and

20 its member companies. CFDC is a nonprofit

21 organization. It's comprised of refiners, auto

22 makers, agricultural organizations, ethanol producer,

23 MTBE manufacturers, and engineering and technology

24 firms which support the use of cleaner burning fuel

25 and fuel additives, including reformulated gasoline

1     and alternative fuels.

2                   We thank you for allowing us the  
3     opportunity to present our comments on the alternative  
4     fuel vehicle purchase requirements as specified under  
5     the Energy Policy Act.

6                   We believe that it's feasible to produce  
7     sufficient supplies of clean burning domestic  
8     alternative fuels to achieve the goals set forth in  
9     the Act, and we are here to discuss some of the  
10    methods for achieving those goals.

11                  Let me begin by saying that the United  
12    States is expected to increase its oil imports from  
13    approximately 50 percent today to more than 60 percent  
14    by the year 2010. The bulk of those imports will go  
15    to meet increasing transportation demands

16                  Today oil imports are costing the United  
17    States more than \$50 billion annually and a minimum of  
18    one million jobs, according to the U.S. Department of  
19    Commerce. In a report dated December 1994, the  
20    Commerce Department also concluded that, quote,  
21    "petroleum imports threaten to impair the national  
22    security of this country."

23                  The United States spends billions of  
24    dollars annually to protect our oil rights abroad.  
25    For these reasons, CFDC believes the goals set forth



1     in EPAct must be maintained, and we urge the  
2     Department of Energy and the Secretary not to redefine  
3     those goals.

4             In a recent report, your Department found  
5     that sufficient supplies of domestic alternative fuels  
6     can be produced. Again, do not redefine EPAct goals.  
7     It is up to all of us, fuel suppliers, vehicle  
8     manufacturers, technology developers, state and local  
9     governments, and private fleets to assist DOE in  
10    finding the right strategy for producing and  
11    distributing these fuels.

12            CFDC and its members feel that without  
13    private and municipal procurement of alternative fuel  
14    vehicles it may be impossible to reach the ten percent  
15    and 30 percent imported oil displacement goals  
16    outlined in EPAct. Several individuals in your own  
17    Department have already concurred with this statement.

18            However, we strongly urge DOE not to  
19    simply impose additional unattainable mandates on  
20    private fleets. Rather, we encourage DOE, Congress,  
21    and the administration to provide sufficient  
22    incentives, both financial and otherwise, through  
23    various programs, such as the Clean Cities Program, to  
24    drive the AVF market.

25            Without proper incentives, the lofty goals

1 of EPAct will never be reached.

2 On a separate note, it may be advantageous  
3 to maintain municipal fleet mandates without imposing  
4 mandates on the private fleets in order to meet the  
5 goals of the EPAct. CFDC and its members would  
6 support such a policy decision.

7 Without adequate incentives to go along  
8 with the goals of EPAct, it is likely that private  
9 fleets will object to the use of AVFs. They may  
10 perceive the AVF procurement goals as unduly  
11 burdensome.

12 Take the federal fleet, for example.  
13 Without incentives the federal agencies have only  
14 begrudgingly purchased AVFs. As you are all aware,  
15 even the federal fleet has not achieved the mandates  
16 outlined in EPAct. If the federal fleet cannot meet  
17 the requirements, how can we expect the private fleets  
18 to achieve them without incentives?

19 Our common goal is to achieve cleaner air  
20 and national energy security. Private fleets should  
21 be given the opportunity to purchase AVFs because it  
22 is good for America. However, they should not be  
23 forced into financial hardship to meet these goals.

24 We at CFDC feel the incentives should be  
25 oriented toward domestic fuel consumption, such as

1 fuel tax incentives for domestic products. Additional  
2 incentives could come in the form of vehicle purchase  
3 incentives that adequately reflect the cost of the  
4 vehicle, public parking benefits, high occupancy  
5 vehicle lane exemptions, and/or waivers for toll  
6 roads, et cetera.

7           These are a few creative incentives DOE  
8 could provide to fleets operating on domestic  
9 alternative fuels. While some might argue that such  
10 incentives are already in place, current government  
11 energy and tax policy has vacillated so much from year  
12 to year that industry has not had the confidence in  
13 the commitment to those programs to make the necessary  
14 up-front investment.

15           Furthermore, CFDC respectfully suggests  
16 that DOE focus on measures to insure that any  
17 necessary incentives and mandates are aimed at the  
18 right target: oil imports. We could produce  
19 alternative fuels at significantly greater volumes  
20 than we are now and yet still not effectively reduce  
21 imports. That is because we have absolutely no  
22 measures in place to qualify whether or not a fuel  
23 sold is imported.

24           Because imported oil is often the least  
25 expensive, the domestic gallon at the domestic well

1       are often the casualties.

2                   Here are some suggestions that DOE could  
3       follow. One, create incentives for domestic fuels,  
4       including domestic oil.

5                   Take action to offset imports.

6                   Require fuel distributors to have a ten  
7       percent/30 percent domestic fuel allowance in a blend  
8       or on its own.

9                   Failure to do so could arguably make our  
10      situation much worse.

11                  CFDC also knows that it is necessary to  
12      provide proper incentives to vehicle manufacturers to  
13      encourage them to sell alternative fuel compatible  
14      vehicles or engines. However, mandates to produce  
15      AVFs without insuring that they use the alternative  
16      fuels are incomplete, as you discussed in earlier  
17      testimony.

18                  Likewise we need to encourage retail fuel  
19      distributors to sell these fuels. Without the support  
20      of these organizations, the alternative fuel  
21      penetration is limited.

22                  These two key parties need incentives.

23      CAFE has not proven to be sufficient to drive the AVF  
24      market alone. Investigate what incentives are  
25      important to these parties and implement some of them.

1                   Additionally, low blend oxygenated fuels,  
2   such as reformulated gasoline and B20, could assist in  
3   achieving ten percent displacement of oil imports if  
4   DOE were to encourage their nationwide use. This  
5   could be achieved through the replacement fuel program  
6   under Section 502 of EPCA.

7                   The portion of blended fuels, such as E85,  
8   E10 or M85, for example, that are domestically  
9   produced and are non-hydrocarbon should be given  
10   proper credit toward the displacement of oil. Low  
11   level blends should also be encouraged throughout your  
12   Clean Cities Program.

13                  Do not misunderstand this. We are not  
14   suggesting that RFG be used as a fuel for fleet  
15   compliance. We are simply stating that RFG is the  
16   leading petroleum replacement fuel and that it is  
17   reliable, convenient, and cost effective, and should  
18   be given proper credit.

19                  If DOE is serious about backing out the  
20   use of oil imports, then RFG and B20 should be part of  
21   that solution.

22                  Furthermore, alternative fuels should be  
23   encouraged in high volume fuel fleets. In many cases  
24   heavy duty vehicle applications are the best  
25   candidates for AVFs. Heavy duty AVF applications

1     should be given every opportunity that light duty  
2     vehicles have in keeping with the goals of the  
3     program.

4                 Although EPCa highlights light duty  
5     vehicles as a method for achieving the goals of this  
6     policy, it does not restrict heavy duty applications  
7     from also being used.

8                 The replacement fuel program should  
9     provide incentives for the reduction of greenhouse  
10    gases, as stated in the Act.  CFDC would like to see  
11    the program provide incentives for achieving  
12    greenhouse gas reductions in transportation while  
13    reducing oil imports.

14                CFDC believes that these incentives should  
15    be used on fuels that show their ability to reduce  
16    greenhouse gases.

17                It is in the United States' best interests  
18    to use these clean burning alternative fuels.  CFDC  
19    expects the administration to support this policy, and  
20    if the administration is supportive, the President  
21    should request increased budgets for DOE and the U.S.  
22    Treasury to implement and provide incentives for  
23    EPCa.  In fact, CFDC would urge DOE to request  
24    additional budgetary monies to insure that proper  
25    incentives can be put in place so that all the EPCa

1 goals can be reached.

2 On behalf of CFDC, I thank you for the  
3 opportunity to speak and I'll answer any questions.

4 MR. GROSS: It's a late afternoon here.

5 MR. McARDLE: Sure. I've got a couple of  
6 questions. I don't want to monopolize. You folks  
7 probably have some questions as well.

8 One of them, on the first page you said,  
9 "Again, do not redefine EPO Act goals." Are you saying  
10 we shouldn't --

11 MR. HOLT: The goals as currently stated  
12 in EPO Act should be maintained.

13 MR. McARDLE: Okay. So your organization  
14 is suggesting the maintenance of those goals at this  
15 point.

16 MR. HOLT: Correct, correct.

17 MR. McARDLE: Okay. Another statement  
18 was, "It may be advantageous to maintain the municipal  
19 fleet mandates without imposing mandates on private  
20 fleets." Is there a reason you make that delineation?

21 MR. HOLT: In EPO Act as it's currently  
22 written, and this might contradict my last answer,  
23 municipal fleets and private fleets are kind of  
24 written together. It might be -- and this might be a  
25 good opportunity to maybe separate those two out. In

1 a lot of cases it maybe might not make sense for the  
2 private fleet and the municipal fleet to have the same  
3 incentive or have the same program.

4 At certain times with a municipal fleet,  
5 for example, a stick is better than a carrot, and in  
6 certain cases for the private fleet, the carrot might  
7 be better than the stick.

8 MR. McARDLE: Okay.

9 MR. HOLT: So that's all we're suggesting  
10 there.

11 MR. McARDLE: Okay. You also recommended  
12 tax incentives for domestic products. Is this for all  
13 domestic fuels, not just particularly domestic fuels,  
14 but just the domestic fuel that's produced here?

15 MR. HOLT: Yeah, including oil, and I  
16 think we made that statement somewhere in the  
17 testimony, and it would be domestic. If you want to  
18 reach the ten percent and 30 percent displacement of  
19 foreign oil, I think and CFDC believes that something  
20 along those lines should be implemented.

21 MR. McARDLE: Okay. That's covers it.  
22 Thank you.

23 MR. HOLT: Thank you.

24 MR. RODGERS: Thank you very much for your  
25 comments, Dave. I hope other folks read your



1 testimony in the public docket and give some comments  
2 on it.

3 I'm particularly interested in your  
4 suggestion about promoting the use of nonpetroleum  
5 components in traditional transportation fuels, such  
6 as reformulated gasoline and including biodiesel B20,  
7 and I understand Treasury could get involved and  
8 create incentives, but I would just like to ask you --  
9 you don't have to do it today -- fill in the blank on  
10 this sentence: "Secretary of Energy, with the  
11 authority granted to me under Titles III, IV, and V of  
12 the Energy Policy Act, we are announcing a program to  
13 promote the use of nonpetroleum components in  
14 transportation fuels by doing the following."

15 And that's what I'm asking you.

16 MR. HOLT: Okay.

17 MR. RODGERS: If you could do that, that  
18 would assist us in trying to understand where we can  
19 go with our current authority and what kind of things  
20 we might need to go back to Congress and ask --

21 MR. HOLT: Would you like us to answer  
22 that question as part of the record? Could we get  
23 that in as an exhibit to the record?

24 MR. RODGERS: Yeah. You don't have to do  
25 it today, but if you have time --

1 MR. HOLT: Sure.

2 MR. RODGERS: -- that would be great to  
3 do. Thank you.

4 MR. HOLT: Sure.

5 MR. GROSS: Any other questions?

6 MS. LEWIS: No.

7 MR. GROSS: I've got one. Are you in a  
8 position to comment on -- going all the way back to  
9 the very first testimony of the day -- are you in any  
10 position to comment on the Natural Gas Vehicles  
11 Incentives Act, Congressman Barton's legislation?

12 MR. HOLT: Not really.

13 MR. GROSS: It was stated it is going to  
14 be reintroduced in the next session.

15 MS. HAMILTON: Which is repealing the  
16 mandate for the federal, if I'm correct.

17 MR. GROSS: Well, it would provide a  
18 number of incentives in this case for natural gas. I  
19 can envision perhaps an alternative fuel vehicle  
20 incentives act, but the proviso, as I understand it,  
21 is that if all of those incentives would be  
22 legislated, that in that event the mandates would be  
23 repealed.

24 MR. HOLT: With the very large caveat that  
25 I did not hear the testimony this morning and I have

1 not read the Act --

2 MR. GROSS: Okay. You're probably not in  
3 a position then to answer.

4 MR. HOLT: Not really in a position to  
5 answer the question, but any incentive -- I'll go back  
6 to my testimony and give a general answer -- any  
7 incentive that encourages the production and use of  
8 domestically produced alternative fuels, we would  
9 support.

10 MR. GROSS: All right. Thanks again.

11 MR. HOLT: Sure. Thank you.

12 MR. GROSS: Do we have any other  
13 unscheduled speakers?

14 (No response.)

15 MR. GROSS: At this hour the room has  
16 cleared pretty much, and so this is the last chance.  
17 Are there any rebuttals or clarifying statements that  
18 anyone left in the room would like to make or anybody  
19 calling in?

20 Lacking any additional comments and  
21 speakers, we will bring this hearing to a close.

22 Thank you.

23 (Whereupon, at 5:49 p.m., the hearing in  
24 the above-entitled matter was concluded.)

25